

Singapore Industry Focus

Singapore Property

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Jul 2018

Hitting a roadblock

- Underweight property developers, new property curbs will hit share prices of developers
- Sales momentum to turn cold as increased upfront capital commitments will deter potential buyers
- En-bloc activity to wane as developers re-calibrate strategies to clear stock at high prices

Developers' share prices to fall on property curbs. After warning of a "market exuberance" for the past 6 months, the government has reinstated property curbs through raising Additional Buyer's Stamp Duty (ABSD) rates by 5ppts and tightened Loan-to-Value (LTV) limits by 5ppts. The aim of these measures is to curb excessive property price increases, which came as a surprise in our view and will likely have caught investors unawares. With sentiment for developers expected to weaken with up to a c.20% potential downside in share prices, we expect further selling pressure on developers in the near term. We cut Developers to Underweight, and downgrade the following stocks: **City Dev to Fully Valued (TP S\$10.00)**, **UOL to HOLD (TP S\$7.82)**, **Chip Eng Seng to Fully Valued (TP S\$0.75)**, and **Roxy to Fully Valued (TP S\$0.40)** mainly on increased discounts to RNAV. We also cut **APAC Realty to Fully Valued, TP S\$0.66**. We maintain **BUY on Capitaland (S\$3.62)** and **Frasers Property (BUY, TP S\$1.90)** for its diversified business model, low exposure to residential market <5% and high dividend yield of 4%-5% respectively.

Sales momentum to turn cold. The combined impact of these measures raises the cost of ownership on an assumed S\$1.5m property purchase by S\$75,000 (first time buyer) and S\$150,000 (investor). With the increased upfront capital commitment, we expect demand from investors and foreigners to cool in the immediate term. In terms of sales momentum, we expect total volumes to fall to 9,000-10,000 units in 2018, and potentially even further if these curbs remain.

En-bloc market potentially grinding to a halt; developers to recalibrate strategies to clear unsold stock at high prices. We believe that we have seen the end of the current en-bloc cycle. The revised ABSD rates (25% ABSD and an additional 5% non-remittable for en-bloc sales) greatly increases the capital commitment for developers looking to land-bank further in a period of increased uncertainty in buying volumes and heightened supply entering the market in the coming 2 years. The immediate strategy for developers with upcoming launches will be to re-look at their pricing and launch strategy. In the longer term, if sell-through rates do not follow through, the risk of potential write-off to land values will be a concern. However, this is not a base case scenario at this moment.

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STOCKS

	Price S\$	Mkt Cap US\$m	12-mth		Rating
			Target Price S\$	Performance (%) 3 mth 12 mth	
Capitaland	3.18	9,720	3.62	(11.2) (9.4)	BUY
Frasers Property Ltd	1.67	3,564	1.90	(13.9) (10.7)	BUY
UOL Group	7.75	4,784	7.82	(9.1) 1.7	HOLD
City Developments	11.21	7,468	10.00	(12.4) 4.9	FV
APAC Realty	0.78	203	0.66	(32.8) N.A	FV
Chip Eng Seng	0.85	387	0.75	(11.9) 18.9	FV
Roxy-Pacific Holdings	0.48	455	0.40	(6.7) (2.3)	FV

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 5 Jul 2018

Changes to Developer calls

Developers	Last Price	Current Target Price	Previous Call	Revised Target Price	Revised Call
	(S\$)	(S\$)		(S\$)	
Capitaland	3.18	4.35	BUY	3.62	BUY
FPL	1.67	2.35	BUY	1.90	BUY
UOL	7.75	10.23	BUY	7.82	HOLD
CityDev	11.21	15.40	BUY	10.00	FV
APAC Realty	0.78	1.22	BUY	0.66	FV
CES	0.85	1.18	BUY	0.75	FV
Roxy Pacific	0.48	0.63	BUY	0.40	FV

Source: DBS Bank

Killing me softly

Property curbs reinstated. Last night, the Singapore Government announced adjustments to the Additional Buyer's Stamp Duty (ABSD) rates and Loan-to-Value (LTV) limits on residential property purchases which will take effect from 6 July 2018. These measures are aimed to cool the property market and keep "price increase" in line with economic fundamentals.

Higher ABSD will increase cost of ownership further. The government will raise ABSD rates by 5ppts for all individuals and 10ppts for entities. In addition, the government has introduced a non-remittable 5% ABSD on the purchase price or market value for developers purchasing residential properties for housing development (targeted at the en-bloc market). The new ABSD rates will apply from 6 July 2018.

The government has allowed a transitional provision where an option to purchase (OTP) has been granted on or before 5 July

2018 and the previous ABSD rates will apply if the OTP is exercised within 3 weeks (on or before 26 July 2018) or the OTP validity period, whichever is earlier.

Reduction in mortgage Loan-to value (LTV) limits. LTV limits will be tightened by 5ppts for all housing loans granted by financial institutions for private properties. These revised limits will apply to loans for the purchase of residential properties where the OTP is granted on or after 6 July 2018. For the first housing loan, individual borrowers can now only borrow up to 75% of the purchase price (55% if tenure extends beyond 30 years or past age 65). The LTV limits for a second/third housing loan will now be revised to 45% and 35% respectively (25% and 15% respectively if tenure extends beyond 30 years or past age 65). For non-individual borrowers, the LTV limit has been brought down to 15% from 20% previously.

Summary of ABSD Changes

Range of ABSD	Type	Rates on or before 5th Jul'18	Rates on or after 6th Jul'19
Singapore Citizen (SCs) buying first residential property	Individual	0%	0% (no change)
SCs buying second residential property	Individual	7%	12% (revised)
SCs buying third and subsequent residential property	Individual	10%	15% (revised)
Singapore Permanent Resident (SPRs) buying first residential property	Individual	5%	5% (no change)
SPRs buying second and subsequent resident property	Individual	10%	15% (revised)
Foreigners buying any residential property	Individual	15%	20% (revised)
Entities buying any residential property	Companies	15%	25% (revised) 5% additional for developers (non-remittable)

Source: MOF, DBS Bank

Summary of changes in loan-to-value (LTV) limits

Range of ABSD	1st Housing Loan	2nd Housing Loan	3rd Housing Loan
Individual			
LTV Limit	Existing Rules 80% or 60% if loan tenure >30 years or extends past age 65 Revised Rules 75% or 55% if loan tenure >30 years or extends past age 65	Existing Rules 50% or 30% if loan tenure >30 years or extends past age 65 Revised Rules 45% or 25% if loan tenure >30 years or extends past age 65	Existing Rules 40% or 20% if loan tenure >30 years or extends past age 65 Revised Rules 35% or 15% if loan tenure >30 years or extends past age 65
Cash Downpayment	5% or 10% if tenure > 30 years or extends past age 65	No change to existing rules 25%	25%
Non- Individual			
LTV Limit	Existing Rules : 20% Revised Rules: 15%		

Source: MOF, DBS Bank

Impact on the Residential Market

Last minute sales at showflats. The immediate impact was that showflats for existing and upcoming launches were open till late on the 5 July 2018 as developers looked to capitalise on the previews done in recent weeks. Based on anecdotal evidence and calls to agents, we understand that showflats at Riverfront Residences, Park Colonial and Stirling Residences were packed with prospective buyers looking to secure a new unit before the new measures kicked in.

Launches were brought forward to 5 July 2018 while existing launches (Affinity at Serangoon) offered last minute discounts of up to 5% to entice buyers to commit.

Primary sales demand to drop back to 9,000-10,000 units. Both measures will effectively raise the cost of acquisition of a new home for homeowners and impact investors and foreigners while largely having minimal impact on the genuine home owner or home upgrader. Based on an assumed S\$1.5m price for a new home, we estimate that the new measures will raise the outlay by an additional S\$75,000 for home owners (from higher cash down-payments from a tighter loan limit). For investors and foreigners, the cash and/or CPF commitment increases by a hefty S\$150,000 (S\$75,000 each from higher ABSD payable and upfront capital).

Over the next one year, while we continue to expect sales to be driven by close to c.7,000 displaced home owners looking for a replacement home, demand from these buyers is likely to be strong in the immediate term but is finite. We project home

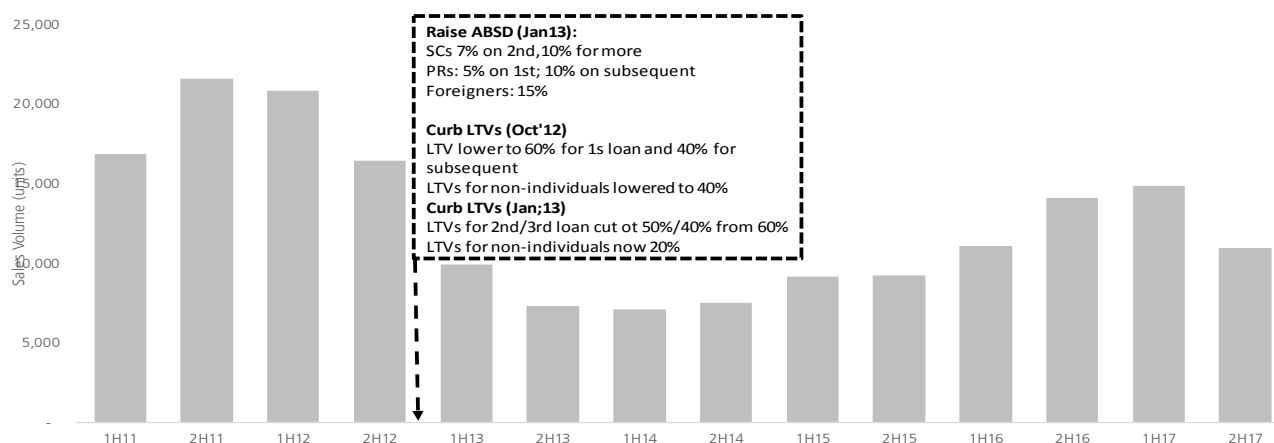
transaction volumes to fall back to 9,000-10,000 in 2018 (YTD 5M18 transaction volumes reached 4,320 units).

Punitive measures for developers looking to land-bank in the en-bloc market; demand for en-bloc to grind to a halt. The increase in ABSD to 25% (vs 15% previously) and the additional 5% non-remittable ABSD increases the capital commitment and significantly increases the risks for developers looking to add to their land-bank. While developers may apply for remittance of the 25% ABSD, the uncertainty and expected slowdown in sales velocity in 2H18 and potentially 2019 might make developers re-think their land-banking strategy or even put a halt to this altogether.

What are potential tail-end risks? Developers have committed more than S\$30bn into the residential market on over more than 70 sites in the en-bloc market and government land sales (GLS) programme over the past 2 years. This translates to over 37,000 new un-launched units in the pipeline. While take-up rates might turn modest, the medium-term risk, if sell-through rates remain weak or falter, will be potential write-offs to land values on developer's balance sheets. This is not a near term risk for now but could emerge a couple of years later, if sales momentum falters.

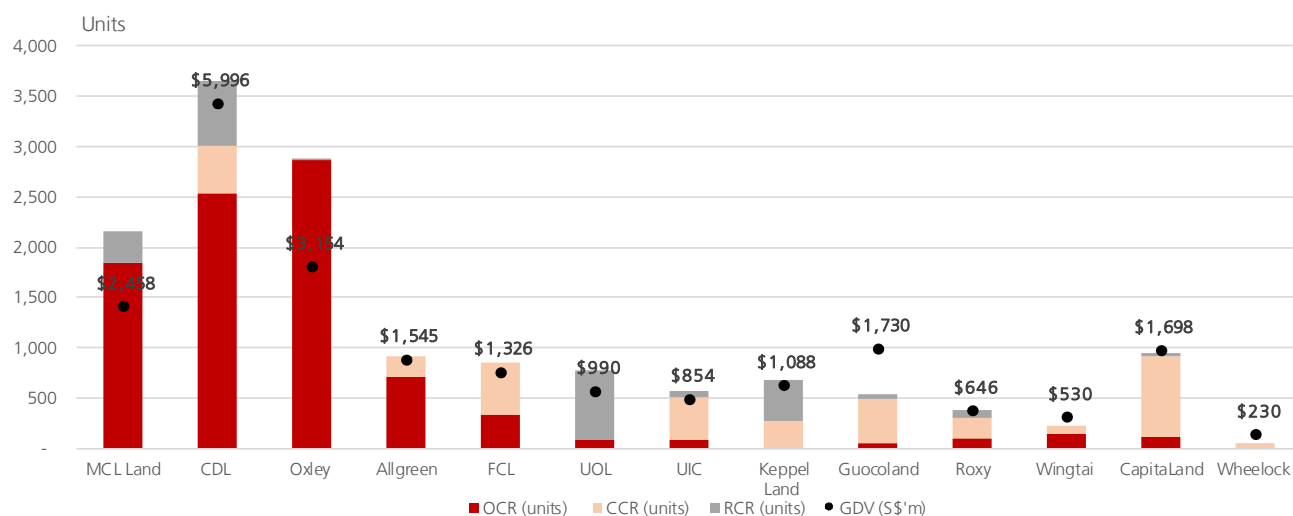
Based on our estimates, the developers with the largest exposure to Singapore residential are City Developments (CDL), MCL Land (subsidiary of HK Land), and Oxley Holdings.

Impact of previous ABSD and LTVs on volumes (1H11 – 2H17)



Source: URA, DBS Bank

Developer exposure in residential sector (value of inventory on the books)



Source: URA, Bloomberg Finance L.P., companies, DBS Bank

Estimated developers' exposure to various market segments

Company	SG Resi	SG Commercial	Overseas	Total
	%	%	%	%
Covered by DBS				
CapitaLand	5%	30%	65%	100%
City Dev	30%	45%	25%	100%
Frasers Property Ltd	5%	50%	45%	100%
UOL	28%	62%	10%	100%
Roxy Pacific	21%	25%	54%	100%
Wingtai	17%	30%	53%	100%
Not-Covered by DBS				
Guocoland	25%	65%	10%	100%
UIC	15%	83%	2%	100%
Ho Bee	15%	63%	22%	100%
Wheelock	30%	39%	32%	100%
Wing Tai	10%	30%	60%	100%
Bukit Sembawang	99%	1%	0%	100%
United Engineers	10%	80%	10%	100%
Oxley Holdings	40%	20%	40%	100%

Source: URA, Bloomberg Finance L.P., companies, DBS Bank

Impact on developers' share prices

More downside to property developer share prices. With sentiment for developers expected to weaken further, we see a knee jerk sell-off for most developers in the near term. Based on historical share price performances, developers tend to react negatively post announcement, and their share prices have tended to fall by 3-5% immediately after the announcement. Depending on the physical market environment, stock prices may weaken further and could fall by up to 15% a month after.

Developers' share prices have been weak recently, falling by 12% to 18% since the recent peak in Apr 2018, and we believe that there is likely to be further downside given that the extent of the property curbs has taken most investors by surprise.

Share price reaction post previous property curbs

Event	Scenarios	City Dev	UOL	Capitaland	FPL	Roxy	Chip Eng Seng	Total
Govt first implemented property measures (Feb'10)	1 - 2 days after announcement	-5%	0%	-4%	0%	0%	-1%	-3%
	1 month after announcement	0%	2%	4%	0%	11%	3%	2%
	Peak to trough*	-14%	-2%	-13%	0%	-17%	-9%	-10%
Govt first implemented ABSD (Dec'11)	1 - 2 days after announcement	-2%	-3%	-3%	0%	0%	-1%	-2%
	1 month after announcement	-1%	4%	-6%	0%	0%	1%	-2%
	Peak to trough*	-17%	-12%	-20%	0%	-5%	-8%	-15%
Govt raised ABSD / lowered LTV (Jan'13)	1 - 2 days after announcement	-8%	-3%	-4%	0%	-5%	-4%	-5%
	1 month after announcement	-9%	1%	-1%	0%	1%	43%	-2%
	Peak to trough*	-16%	-4%	-5%	0%	-2%	-6%	-5%
Govt first tweaked LTV (Aug'10)	1 - 2 days after announcement	-5%	2%	-2%	0%	0%	0%	-2%
	1 month after announcement	11%	18%	2%	0%	0%	0%	6%
	Peak to trough*	-14%	-2%	-3%	0%	-5%	-4%	-6%
Govt lowered LTV (Jan'11)	1 - 2 days after announcement	0%	1%	0%	0%	0%	0%	0%
	1 month after announcement	-10%	-8%	-9%	0%	0%	0%	-8%
	Peak to trough*	-17%	-10%	-6%	0%	-13%	-8%	-5%
	Recent Peak to current	-13%	-13%	-16%	-18%	-12%	-16%	-14%

* Peak to trough represents 1 month before and after the announcement

Source: URA, DBS Bank

Impact on Developers share prices

Based on historical P/NAV trading bands, developers traded at an average of 1.0x P/NAV during the down-cycle in FY13-17 with – 1 SD at 0.80x and trough at 0.67x. Given the uncertainty in physical property market conditions, we cut our property sector call to Underweight.

We cut Developers to Underweight, and downgrade the following stocks: City Dev to Fully Valued (TP S\$10.00), UOL to HOLD (TP S\$7.82), Chip Eng Seng to Fully Valued (TP S\$0.75),

and Roxy to Fully Valued (TP S\$0.40). We have increased our discounts to RNAV from parity to up to a 65% discount. We also cut APAC Realty to Fully Valued, TP S\$0.66.

We maintain BUY on CapitaLand (S\$3.62) and Frasers Property (BUY, TP S\$1.90) for its diversified business model, low exposure to singapore residential market and high dividend yield of 5% respectively.

Developer P/NAV valuations over past down-cycles

Developers	Last Price (S\$)	Current P/BV (x)	P/BV Valuations (x) over FY13-17						Potential Downside (%)	
			Trough	Peak	Mean	-2SD	-1SD	+1SD	vs Trough	vs -1SD (FY13-17)
Capitaland	\$ 3.18	0.73	0.67	1.17	0.86	0.68	0.77	0.95	8%	-6%
UOL	\$ 7.75	0.69	0.53	0.91	0.71	0.53	0.62	0.79	24%	11%
CityDev	\$ 11.21	1.05	0.70	1.70	1.08	0.71	0.90	1.27	33%	14%
FPL	\$ 1.67	0.77	0.66	1.02	0.82	0.69	0.76	0.89	15%	2%
CES	\$ 0.85	0.67	0.51	1.25	0.77	0.35	0.56	0.98	24%	16%
Roxy Pacific	\$ 0.48	1.24	0.98	2.81	1.70	0.69	1.19	2.21	21%	4%
Average (DBS Coverage):		0.86	0.67	1.48	0.99	0.61	0.80	1.18	21%	7%
							Target			

Source: Bloomberg Finance L.P., DBS Bank

Target price changes

Developers	Last Price	Current Target (S\$)	Previous Call	Revised Target Price (S\$)	Revised Call	Change	Basis
Capitaland	3.18	4.35	BUY	3.62	BUY	No change	Discount to RNAV reduced from 10% to 25%
UOL	7.75	10.80	BUY	7.82	HOLD	Downgrade	Discount to RNAV reduced from 15% to 35%
CityDev	11.21	15.40	BUY	10.00	FULLY VALUED	Downgrade	Discount to RNAV reduced from 0% to 35%
FPL	1.67	2.30	BUY	1.90	BUY	No change	Discount to RNAV reduced from 20% to 35%
CES	0.85	1.18	BUY	0.750	FULLY VALUED	Downgrade	Discount to RNAV reduced from 45% to 65%
Roxy Pacific	0.48	0.63	BUY	0.40	FULLY VALUED	Downgrade	Discount to RNAV reduced from 30% to 55%
APAC Realty	0.78	1.22	BUY	0.66	FULLY VALUED	Downgrade	PE peg lowered from 15x to 10x

Source: Bloomberg Finance L.P., DBS Bank

Singapore Company Guide

CapitaLand

Version 15 | Bloomberg: CAPL SP | Reuters: CATL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Jul 2018

BUY

Last Traded Price (5 Jul 2018): S\$3.18 (STI : 3,256.71)
Price Target 12-mth: S\$3.62 (14% upside) (Prev S\$4.35)

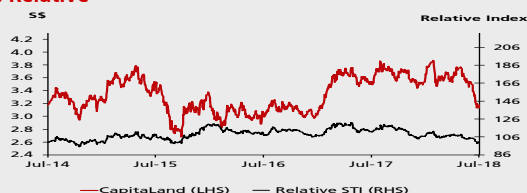
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What's New

- Singapore residential curbs to have limited impact on CAPL's financials
- Residential book substantially sold, growing earnings from its commercial portfolio to underpin potential higher dividends
- BUY call maintained, TP reduced to S\$3.62

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2017A	2018F	2019F	2020F
Revenue	4,610	5,491	5,506	4,803
EBITDA	3,118	2,553	2,504	2,351
Pre-tax Profit	2,624	1,805	1,748	1,556
Net Profit	1,551	992	960	855
Net Pft (Pre Ex.)	1,551	992	960	855
Net Pft Gth (Pre-ex) (%)	30.3	(36.0)	(3.2)	(11.0)
EPS (S cts)	36.5	23.3	22.6	20.1
EPS Pre Ex. (S cts)	36.5	23.3	22.6	20.1
EPS Gth Pre Ex (%)	31	(36)	(3)	(11)
Diluted EPS (S cts)	36.4	23.3	22.5	20.1
Net DPS (S cts)	12.0	13.0	14.0	12.0
BV Per Share (S cts)	433	444	453	460
PE (X)	8.7	13.6	14.1	15.8
PE Pre Ex. (X)	8.7	13.6	14.1	15.8
P/Cash Flow (X)	6.2	6.4	nm	78.9
EV/EBITDA (X)	13.6	16.6	18.0	19.9
Net Div Yield (%)	3.8	4.1	4.4	3.8
P/Book Value (X)	0.7	0.7	0.7	0.7
Net Debt/Equity (X)	0.5	0.5	0.5	0.6
ROAE (%)	8.6	5.3	5.0	4.4
Earnings Rev (%)		0	0	0
Consensus EPS (S cts)		21.9	22.7	24.9
Other Broker Recs:		B: 19	S: 0	H: 3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Timely re-entry with attractive yield

Maintain BUY, TP reduced to S\$3.62. With the re-introduction of property measures in Singapore, we see limited impact on CapitaLand Limited (CAPL) given that the group has substantially sold off existing inventories and the Singapore residential exposure forms only 5% of RNAV. Strong upcoming 2Q18 results on the back of growing income from its commercial property portfolios from China and Singapore will be re-rating catalysts.

Where we differ: Further potential for higher dividends which will surprise investors. We continue to see value in CAPL as we anticipate strong catalysts in the medium term to drive its share price higher. A 20% increase in dividend payment in FY17, which is sustainable, provides investors with confidence that all business units are on an uptrend. We potentially see further dividend upside for the group given the strong pipeline of launch projects in the wings.

Pearl Bank Apartments en-bloc – ample buffers. CAPL successfully acquired the centrally located Pearl Bank Apartments through a private treaty collective sale for S\$728m, implying a land price of S\$1,515 psf, which we believe is an attractive rate for a centrally located site. While the property curbs will be an overhang for the potential sale price to be achieved for the site, with an estimated breakeven at c.S\$1,900, we believe there are ample buffers for the group to achieve a decent margin.

Valuation:

Our target price is revised downwards to S\$3.62 is based on a 25% discount (from 10% previously) to our adjusted RNAV of S\$4.81/share.

Key Risks to Our View:

Slowdown in Asian economies. The risk to our view is if there is a slowdown in Asian economies, especially China, which could dampen demand for housing and private consumption.

At A Glance

Issued Capital (m shrs)	4,172
Mkt. Cap (S\$m/US\$m)	13,266 / 9,720
Major Shareholders (%)	
Temasek Holdings Private Ltd	40.0
Blackrock	6.0
Free Float (%)	54.0
3m Avg. Daily Val (US\$m)	24.2

ICB Industry : Financials / Real Estate

CRITICAL DATA POINTS TO WATCH

Critical Factors

Growing recurring revenues from retail mall portfolio and Ascott. While trading properties (residential development and strata offices) account for 24% of assets, we see continued strength from CMA (CAPL’s retail mall division) and commercial integrated developments, including Ascott Group (its successful serviced residence brand) which form a significant 76% of total assets and are expected to contribute to growing recurring income for the group.

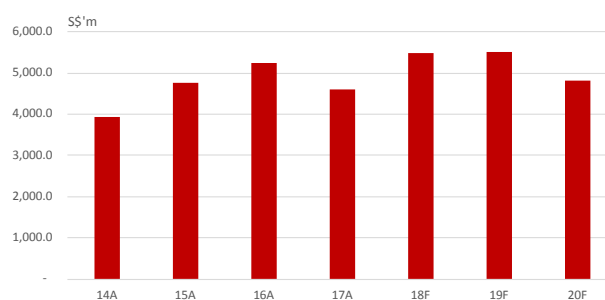
Retail malls seeing good tenant sales growth, operational outlook remains stable. The group’s retail malls in China, Singapore and Malaysia are seeing improving operating metrics - tenant sales in Singapore and China have increased by 1.5% and 19.8% respectively, while portfolio tenant sales and traffic growth were generally positive across the portfolio. Looking ahead, we expect the CMA to drive earnings mainly on the back of the stabilisation of more than 1m sqm of retail space that was completed back in 2017.

Asset reconstitution strategy to crystallise value. The proposed sale of 20 malls, of which mostly are in Tier 2/3 cities at 7% premium above valuation, crystallises value for investors and is a testament of the group’s proactive asset management capabilities. Income lost will be more than compensated by the completion of more than 1m sqm of retail GFA in 2017, a majority coming from China (Suzhou Center Mall) and three Raffles City projects (Raffles City Changning, Raffles City Hangzhou and Raffles City Shenzhen) which have seen strong pre-leasing interest with committed rates of more than 90%.

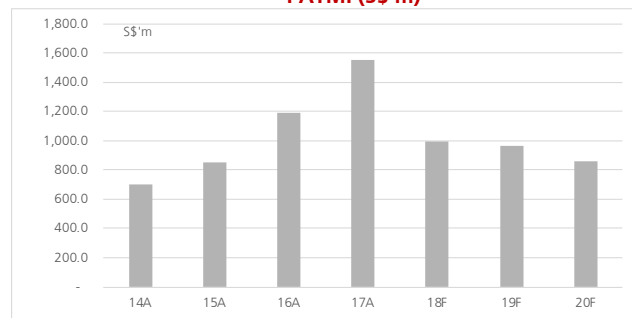
The Ascott Limited remains on the fast track to achieve its 80,000-unit target by year 2020 and now aims to double it by 2023. With scale, we believe that Ascott can achieve better operating efficiency and thus margins and returns. Ascott’s investment in China’s largest and fastest-growing online apartment sharing platform, Tujia has yet to bear fruit meaningfully but we continue to believe in its longer-term synergies and ability to leverage on Tujia’s platform to reach out to a wider addressable market in the medium term.

Residential sales see strong uplift as property market sentiment improves. CAPL continues to see strong momentum in its residential division in China. In Singapore, the group has successfully added to its land bank through the en-bloc of Pearl Bank Apartments which will be launched in 2019 but could be delayed given the property curbs. In China, the group has locked in c.\$3.0bn in sales offering strong earnings visibility. In 2018, CAPL will be launching a further 6,000 units for sale.

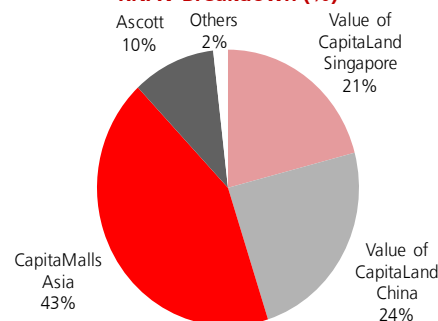
Revenue (S\$’m)



PATMI (S\$’m)



RNAV Breakdown (%)



RNAV of CapitaLand	S\$’bn
Value of CapitaLand Singapore	8,489.6
Value of CapitaLand China	9,805.9
CapitaMalls Asia	17,409.6
Ascott	4,166.3
Others	735.0
GDV of CAPL Group	40,606.4
Less: Net Debt	(11,552.3)
Less: devt capex	(8,471.4)
RNAV of CAPL	20,582.7
Total Shares	4,258.6
RNAV per share	4.83
Discount to RNAV	25%
Target price	3.62

Source: Company, DBS Bank

Balance Sheet:

Balance sheet remains strong. We forecast debt/equity ratio to remain stable, at below c.0.6x in the coming years. Debt maturity profile remains long at 3.0 years with an average cost of 3.4%. The group aims to maintain a higher level of interest cost hedged.

Share Price Drivers:

Strong residential sales to translate into higher prices. CAPL has taken advantage of the improved property sentiment in Singapore to sell most of its existing inventory. Key will be potential land-banking opportunities to replenish its balance sheet. In addition, strong sales in China, we believe, will result in higher prices.

M&A and acquisitions. CAPL is looking at opportunities across the region and with the strong residential sales recorded in recent years across Singapore, China and Vietnam, it makes sense to be replenishing land banks in these countries. Acknowledging strong competition for land, management is looking at opportunities to acquire land through JVs or mergers & acquisitions (M&A) which will offer the group an alternative and cheaper entry price. The group remains keen to build on its recurring income base and we could see acquisitions in that space.

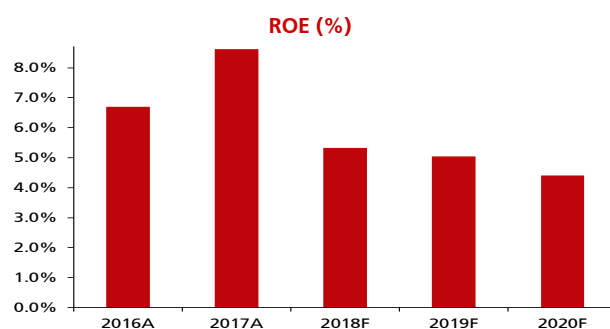
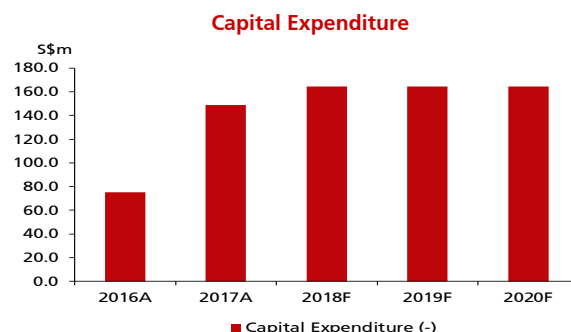
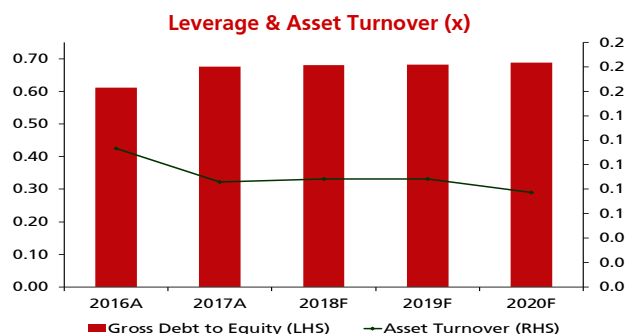
Asset recycling into listed S-REITs/funds. CAPL will continue to demonstrate its ability to crystallise value through strategic divestments of mature assets to its listed REITs, which are market leaders in their respective subsectors of retail, office and hospitality. The ability to recycle capital efficiently will enable the group to free up capital, improve its balance sheet position and deploy capital to projects with higher returns.

Key Risks:

Slowdown in Asian economies. The risk to our view is a further slowdown in Asian economies which could dampen demand for housing and private consumption expenditure and retail sales. This could, in turn, result in slower-than-expected projections.

Company Background

CapitaLand (CAPL) is one of Asia’s largest real estate companies headquartered and listed in Singapore. Its two core markets are Singapore and China; while Indonesia, Malaysia and Vietnam have been identified as new growth markets.



Source: Company, DBS Bank

Key Income Statement (S\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	5,252	4,610	5,491	5,506	4,803
Cost of Goods Sold	(3,654)	(2,772)	(2,904)	(2,953)	(2,386)
Gross Profit	1,598	1,838	2,587	2,553	2,417
Other Opng (Exp)/Inc	(435)	(455)	(478)	(501)	(527)
Operating Profit	1,163	1,383	2,109	2,051	1,891
Other Non Opg (Exp)/Inc	437	789	200	200	200
Associates & JV Inc	708	877	174	183	191
Net Interest (Exp)/Inc	(401)	(425)	(678)	(686)	(725)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,907	2,624	1,805	1,748	1,556
Tax	(403)	(298)	(325)	(315)	(280)
Minority Interest	(314)	(775)	(488)	(473)	(421)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,190	1,551	992	960	855
Net Profit before Except.	1,190	1,551	992	960	855
EBITDA	2,374	3,118	2,553	2,504	2,351
Growth					
Revenue Gth (%)	10.3	(12.2)	19.1	0.3	(12.8)
EBITDA Gth (%)	2.1	31.4	(18.1)	(1.9)	(6.1)
Opg Profit Gth (%)	11.3	19.0	52.5	(2.7)	(7.8)
Net Profit Gth (Pre-ex) (%)	11.7	30.3	(36.0)	(3.2)	(11.0)
Margins & Ratio					
Gross Margins (%)	30.4	39.9	47.1	46.4	50.3
Opg Profit Margin (%)	22.1	30.0	38.4	37.3	39.4
Net Profit Margin (%)	22.7	33.6	18.1	17.4	17.8
ROAE (%)	6.7	8.6	5.3	5.0	4.4
ROA (%)	2.6	2.9	1.6	1.5	1.4
ROCE (%)	2.2	2.6	3.1	2.9	2.7
Div Payout Ratio (%)	35.7	32.9	55.7	62.0	59.7
Net Interest Cover (x)	2.9	3.3	3.1	3.0	2.6

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	898	992	1,507	1,213	1,376
Cost of Goods Sold	(560)	(616)	(1,000)	(592)	(773)
Gross Profit	337	377	507	621	603
Other Oper. (Exp)/Inc	(93.2)	(97.9)	(114)	(202)	(101)
Operating Profit	244	279	393	418	502
Other Non Opg (Exp)/Inc	200	356	265	37.2	21.2
Associates & JV Inc	172	340	136	232	179
Net Interest (Exp)/Inc	(94.3)	(91.1)	(129)	(126)	(131)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	521	883	664	561	571
Tax	(55.6)	(72.6)	(87.2)	(82.4)	(76.2)
Minority Interest	(73.0)	(232)	(260)	(211)	(176)
Net Profit	393	579	317	268	319
Net profit bef Except.	393	579	317	268	319
EBITDA	633	992	810	705	720

Growth

Revenue Gth (%)	(51.6)	10.6	51.9	(19.5)	13.4
EBITDA Gth (%)	(20.6)	56.6	(18.3)	(13.0)	2.1
Opg Profit Gth (%)	(45.7)	14.3	40.8	6.5	20.0
Net Profit Gth (Pre-ex) (%)	(8.8)	47.5	(45.3)	(15.5)	19.2

Margins

Gross Margins (%)	37.6	38.0	33.6	51.2	43.8
Opg Profit Margins (%)	27.2	28.1	26.1	34.5	36.5
Net Profit Margins (%)	43.8	58.4	21.0	22.1	23.2

Balance Sheet (\$\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	781	840	935	1,029	1,124
Invt in Associates & JVs	12,617	10,197	10,510	10,829	11,153
Other LT Assets	20,577	38,182	38,539	39,039	39,539
Cash & ST Invt	5,067	6,648	7,167	5,196	4,238
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	1,859	1,471	1,830	1,835	1,601
Other Current Assets	4,839	4,108	3,833	4,026	4,514
Total Assets	45,741	61,446	62,814	61,954	62,169
ST Debt	2,373	2,739	2,739	2,739	2,739
Creditor	4,685	5,442	5,702	3,692	2,982
Other Current Liab	670	622	647	661	641
LT Debt	12,479	18,956	19,456	19,956	20,456
Other LT Liabilities	1,233	1,604	1,604	1,604	1,604
Shareholder's Equity	17,605	18,382	18,864	19,272	19,532
Minority Interests	6,696	13,701	13,802	14,030	14,215
Total Cap. & Liab.	45,741	61,446	62,814	61,954	62,169
Non-Cash Wkg. Capital	1,343	(485)	(686)	1,508	2,492
Net Cash/(Debt)	(9,785)	(15,047)	(15,028)	(17,499)	(18,957)
Debtors Turn (avg days)	114.1	131.8	109.7	121.5	130.6
Creditors Turn (avg days)	444.9	684.0	717.5	594.5	525.9
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.5	1.4	1.4	1.6	1.6
Quick Ratio (x)	0.9	0.9	1.0	1.0	0.9
Net Debt/Equity (X)	0.4	0.5	0.5	0.5	0.6
Net Debt/Equity ex MI (X)	0.6	0.8	0.8	0.9	1.0
Capex to Debt (%)	0.5	0.7	0.7	0.7	0.7
Z-Score (X)	1.1	0.8	0.8	0.8	0.8

Gearing remains stable

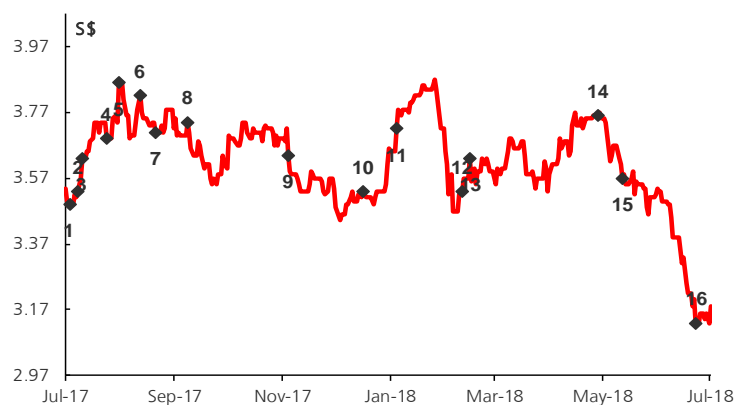
Source: Company, DBS Bank

Cash Flow Statement (S\$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	1,907	2,624	1,805	1,748	1,556
Dep. & Amort.	66.0	69.7	69.7	69.7	69.7
Tax Paid	(350)	(300)	(300)	(300)	(300)
Assoc. & JV Inc/(loss)	(708)	(877)	(174)	(183)	(191)
Chg in Wkg.Cap.	2,292	961	719	(2,209)	(964)
Other Operating CF	97.5	(311)	0.0	0.0	0.0
Net Operating CF	3,305	2,166	2,120	(874)	171
Capital Exp.(net)	(75.2)	(149)	(164)	(164)	(164)
Other Invts.(net)	(575)	(2,893)	(357)	(500)	(500)
Invts in Assoc. & JV	65.3	1,402	(200)	(200)	(200)
Div from Assoc & JV	393	262	60.9	64.0	66.7
Other Investing CF	121	(392)	0.0	0.0	0.0
Net Investing CF	(71.4)	(1,770)	(661)	(800)	(798)
Div Paid	(752)	(1,022)	(898)	(797)	(831)
Chg in Gross Debt	(809)	1,705	500	500	500
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(901)	297	0.0	0.0	0.0
Net Financing CF	(2,462)	979	(398)	(297)	(331)
Currency Adjustments	(153)	(62.9)	0.0	0.0	0.0
Chg in Cash	619	1,313	1,062	(1,971)	(958)
Opg CFPS (S cts)	23.8	28.4	33.0	31.4	26.7
Free CFPS (S cts)	75.8	47.5	46.0	(24.4)	0.16

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	07 Jul 17	3.49	4.33	BUY
2:	12 Jul 17	3.53	4.33	BUY
3:	14 Jul 17	3.63	4.33	BUY
4:	28 Jul 17	3.69	4.33	BUY
5:	04 Aug 17	3.86	4.35	BUY
6:	16 Aug 17	3.82	4.35	BUY
7:	25 Aug 17	3.71	4.35	BUY
8:	12 Sep 17	3.74	4.35	BUY
9:	08 Nov 17	3.64	4.35	BUY
10:	20 Dec 17	3.53	4.35	BUY
11:	08 Jan 18	3.72	4.35	BUY
12:	14 Feb 18	3.53	4.35	BUY
13:	19 Feb 18	3.63	4.35	BUY
14:	02 May 18	3.76	4.35	BUY
15:	16 May 18	3.57	4.35	BUY
16:	27 Jun 18	3.13	4.35	BUY

Source: DBS Bank

Analyst: Derek TAN

Rachel TAN

Singapore Company Guide

Frasers Property Ltd

Version 13 | Bloomberg: FPL SP | Reuters: FRPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Jul 2018

BUY

Last Traded Price (5 Jul 2018): S\$1.67 (STI : 3,256.71)

Price Target 12-mth: S\$1.90 (14% upside) (Prev S\$2.35)

Analyst

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What's New

- The authorities surprised the market with a hike in ABSD and tightening of mortgages, just over a year after it relaxed policy
- Buyers' sentiment will be impacted
- Despite tightening measures, FPL is a good defensive play with low exposure to Singapore property and offers high dividend yield of c.5%
- Maintain BUY rating; lower TP to S\$1.90

Price Relative



Forecasts and Valuation

FY Sep (\$m)	2016A	2017A	2018F	2019F
Revenue	3,440	4,027	2,823	3,165
EBITDA	993	1,148	1,349	1,311
Pre-tax Profit	960	1,248	1,082	1,061
Net Profit	533	620	571	557
Net Pft (Pre Ex.)	368	340	571	557
Net Pft Gth (Pre-ex) (%)	(23.8)	(7.6)	67.8	(2.6)
EPS (\$ cts)	18.4	21.4	19.7	19.2
EPS Pre Ex. (\$ cts)	12.7	11.7	19.7	19.2
EPS Gth Pre Ex (%)	(24)	(8)	68	(3)
Diluted EPS (\$ cts)	18.4	14.5	19.7	19.2
Net DPS (\$ cts)	8.61	8.60	8.60	8.60
BV Per Share (\$ cts)	230	247	258	268
PE (X)	9.1	7.8	8.5	8.7
PE Pre Ex. (X)	13.1	14.2	8.5	8.7
P/Cash Flow (X)	4.4	5.1	3.8	6.4
EV/EBITDA (X)	17.8	17.4	14.4	14.8
Net Div Yield (%)	5.2	5.1	5.1	5.1
P/Book Value (X)	0.7	0.7	0.6	0.6
Net Debt/Equity (X)	0.6	0.7	0.6	0.6
ROAE (%)	8.1	9.0	7.8	7.3
Earnings Rev (%)			0	0
Consensus EPS (\$ cts)			19.6	19.6
Other Broker Recs:		B: 6	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Saved by dividend yield

Growing developer with high dividend yield. We maintain our BUY rating on Frasers Property Ltd (FPL) despite the government implementing tighter measures on the property sector as its valuation remains attractive at 0.6x P/NAV and FPL's dividend yield remains the highest among developers at c.5%. However, we lowered our TP to S\$1.90 (from S\$2.35) on a higher discount to RNAV of 35% from 20% previously on heightened uncertainty.

Where we differ: Defensive play with low exposure to Singapore property and high dividend yield. We believe FPL is a good defensive play within the sector as FPL has low exposure to Singapore's residential property market (~5%; Jiak Kim land site). In addition, with the recent de-rating in share price, FPL currently offers a dividend yield of over 5%, the highest among the developers and comparable to the REITs.

Potential catalyst: Improved property sales, asset monetization, and improving free float and liquidity.

Stable recurring income. FPL's recurring income portfolio should remain stable with Frasers' Tower achieving over 70% commitment, Northpoint mall is now fully opened and potential asset recycling of stable investment properties into its REITs such as Waterway Point mall.

Valuation:

We maintain our BUY rating but lowered our target price to S\$1.90 from S\$2.35, implying a 0.7x P/NAV on higher discount to RNAV to 35% from 20% previously. We have not incorporated newly acquired Geneba into our TP.

Key Risks to Our View:

Dependent on the outlook of the Australian real estate market and currency. The group derives an estimated 30% of PBIT from Australia, and returns could be impacted by the weakening AUD/SGD exchange rate.

At A Glance

Issued Capital (m shrs)	2,913
Mkt. Cap (\$m/US\$m)	4,864 / 3,564
Major Shareholders (%)	
TCC Assets Ltd	59.1
Thai Beverage	28.4
Free Float (%)	12.5
3m Avg. Daily Val (US\$m)	0.54
ICB Industry : Financials / Real Estate Holding & Development	

CRITICAL DATA POINTS TO WATCH

Critical Factors

Growing recurring revenues from its commercial and hospitality divisions. Frasers Property Limited (FPL) is one of the largest property developers in Singapore with an asset base of over S\$27bn as at end-FY17. The group aims to grow recurring revenues to 60-70% of PBIT in the medium term.

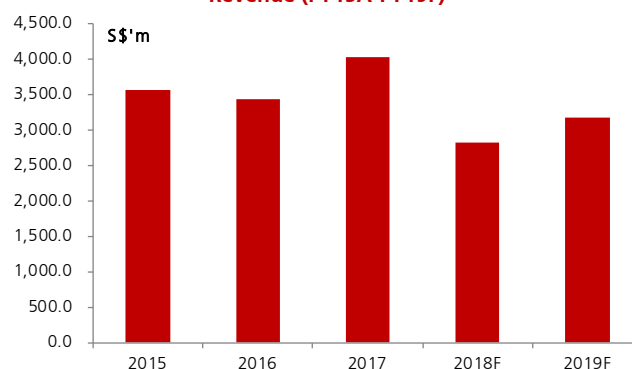
The group’s commercial portfolio will see incremental income from the completions of Waterway Point (completed in January 2016), Northpoint City (retail) and Frasers Towers (commercial) from 2018 onwards, which will boost its earnings further while The Centrepoint mall’s asset enhancement initiative (AEI) was completed in September 2016. Frasers Hospitality is also expected to expand its footprint to 30,000 managed units by 2019. In addition, the acquisition of the Malmaison Hotel du vin Group (MHDV), which has a portfolio of 29 boutique lifestyle hotels and 2,082 keys within 25 regional cities in the UK, will further deepen its presence and clientele reach. We see cross-selling opportunities and synergies between MHDV and the Frasers brand, propelling the division’s performance to greater heights.

New launches across its portfolio; more than 20m sqft of development space to be realised. The group currently has more than 20m sqft of development space to be progressively realised, largely in Australian industrial properties. The group continues to replenish its land bank with recent purchases mostly in Australia (residential and industrial). Unrecognised revenues from its property division, including Frasers Property Australia total about S\$3bn.

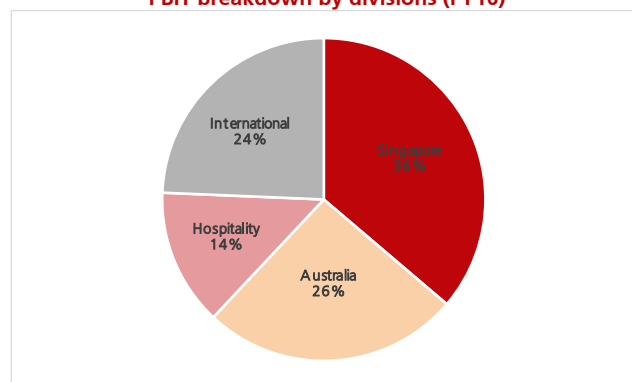
Sustainable high dividend. FPL has one of the highest ROEs among property developers (c.6-11% over FY14A-17A) and dividend yield of over 5% vs industry average ROE of close to 6% and dividend yield of c.2-3%. This is mainly due to the group’s efficient operating model of quick asset turns for its residential development projects and its focus on a portfolio of recurring commercial properties (hotels, retail and office) which boosts returns.

Golden Land acquisition to bear fruit in the medium term. The group currently owns close to a 40% stake in Golden Land Property Development PCL (GOLD) and management believes that this acquisition offers good synergies to FPL as both companies share similar investment philosophies with an aim to continue growing its recurring income base. GOLD also offers FPL the ability to tap into the growing real estate market in Thailand, supported by favourable market fundamentals.

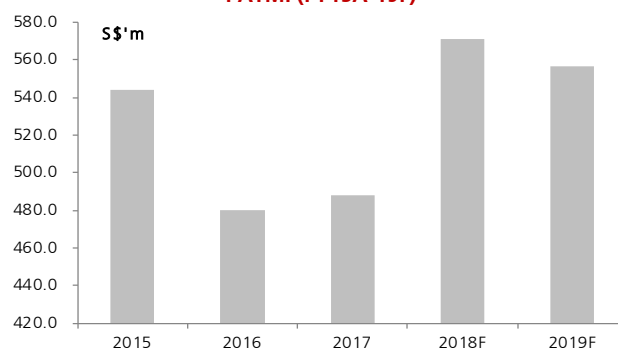
Revenue (FY15A-FY19F)



PBIT breakdown by divisions (FY16)



PATMI (FY15A-19F)

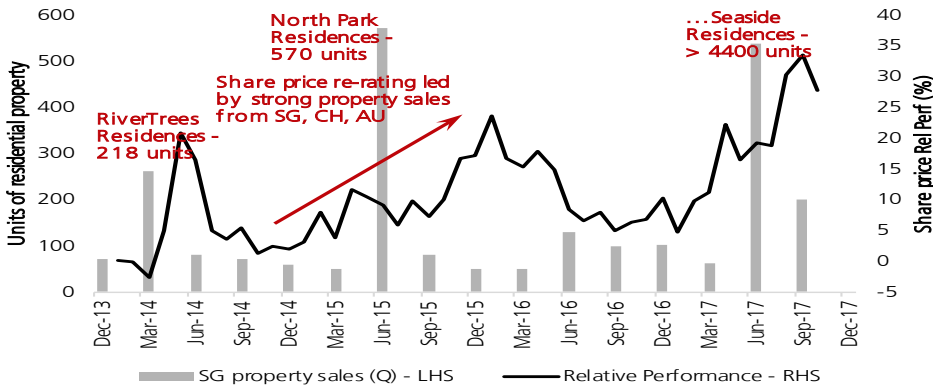


RNAV

	S\$m
RNAV	
Surpluses from:	
Commercial Portfolio (Office, retail, hotels)	(699)
Stakes in REITs	179
Frasers Australand	528
Fee income : Hotel Mgmt	854
Fee income : REITs	385
NPV development projects	521
Total Surpluses	1,769
Add:	
Book NAV	8,053
Gross Development Value	9,821
less: preference shares	(1,392)
less: MI	(3,791)
Add: MI Attributable to REITs	3,827
RNAV	8,466
RNAV/share (\$)	2.92
Discount	35%
TP (\$)	1.90

Source: Company, DBS Bank

**Appendix 1:
 FCL relative performance vs Singapore property sales**

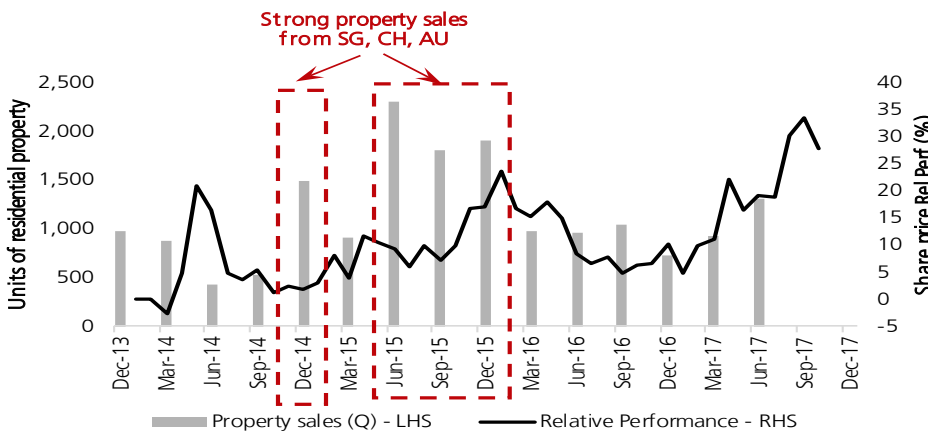


Source: DBS Bank, Thomson Analytics, Company

Remarks

Strong property sales preclude the re-rating of share prices.

FCL relative performance vs group property sales

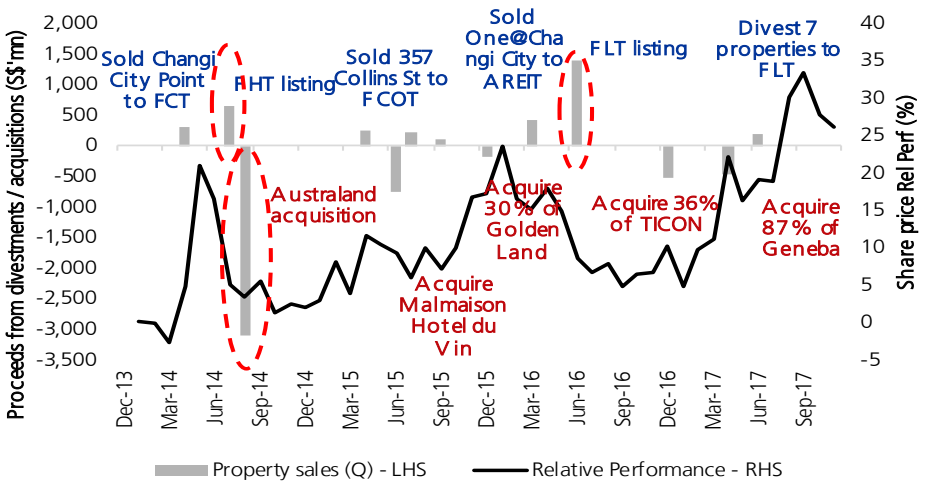


Source: DBS Bank, Thomson Analytics, Company

Remarks

Strong group property sales (led by all major countries – Singapore, China and Australia) led to a continued share price outperformance from September 2014 to December 2015.

FCL relative performance vs asset recycling strategy (major divestment / acquisitions)



Source: DBS Bank, Thomson Analytics, Company, SGX

Remarks

Some correlation of share price outperformance prior to the listings of FHT and FLT. However, we do not find much share price movements from divestment of assets.

The acquisition of Australand which was perceived as expensive at the time could have led to the fall in share price in 2H14.

Balance Sheet:

Balance sheet remains strong. Debt/equity ratio is expected to remain fairly stable at between 0.7-0.9x over FY17A-19F which is within management's comfortable range. Debt maturity profile remains long at approximately three years with an average cost of debt of c.3%. Fixed rate percentage of its loans remains high at 67%.

Share Price Drivers:

Replenishing land bank key to income sustainability. The group currently has more than 20m sqft of development space, mainly in Australia. It is actively looking to replenish its land bank especially in Singapore but remains selective, given the sustained high land prices seen in recent government land tenders. The ability to secure additional land bank at lower prices will mean upside to RNAVs, which could re-rate the stock.

Stable recurring income. FPL's recurring income portfolio should remain stable with Frasers' Tower achieving over 70% commitment, Northpoint mall is now fully opened and potential asset recycling of stable investment properties into its REITs such as Waterway Point mall.

Gains from asset recycling into its listed S-REITs to boost share price. Recycling activities are perceived positively by investors as FPL is able to free up capital by selling its matured assets to its listed REITs, which will improve the group's balance sheet position and recycle capital to projects with higher returns.

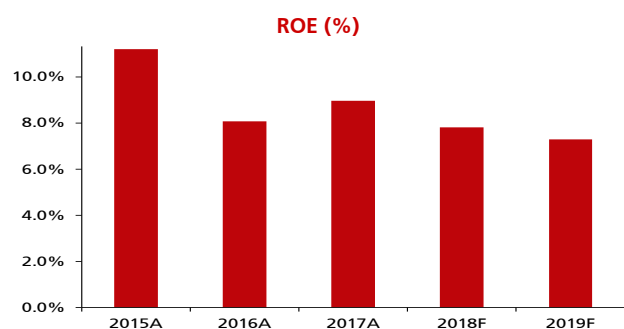
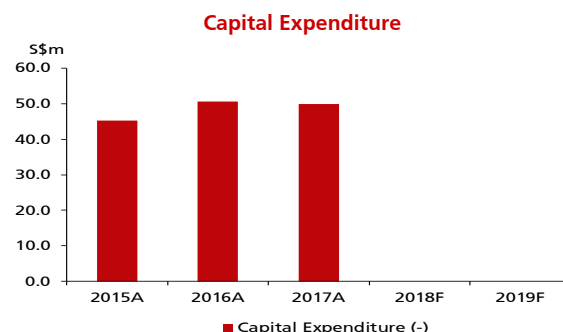
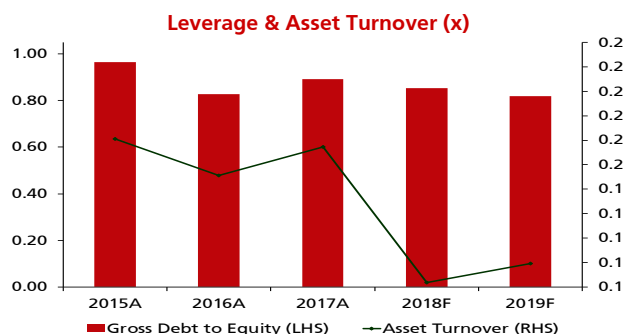
Key Risks:

Small free float. The stock has a low free float with 87.9% held by major shareholders TCC Group and Thai Beverage, thus leading to low liquidity.

Dependent on the outlook of Australia's real estate market, currency outlook. The group derives an estimated 30% of PBIT from Australia which is dependent on the real estate market there, and whose returns could be impacted by the weakening AUD/SGD exchange rate.

Company Background

Frasers Property Ltd (FPL) is a one of Singapore's main real estate companies with assets exceeding S\$20bn. The group has four key core businesses focused on residential, commercial, hospitality and industrial sectors spanning 77 cities across Asia, Australasia, Europe and the Middle East.



Source: Company, DBS Bank

Income Statement (\$m)

FY Sep	2015A	2016A	2017A	2018F	2019F
Revenue	3,562	3,440	4,027	2,823	3,165
Cost of Goods Sold	(2,479)	(2,407)	(2,843)	(1,503)	(1,701)
Gross Profit	1,082	1,033	1,184	1,319	1,464
Other Opng (Exp)/Inc	(257)	(266)	(280)	(254)	(285)
Operating Profit	825	767	904	1,065	1,179
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	279	171	185	225	72.7
Net Interest (Exp)/Inc	(149)	(142)	(121)	(209)	(191)
Exceptional Gain/(Loss)	241	164	280	0.0	0.0
Pre-tax Profit	1,197	960	1,248	1,082	1,061
Tax	(184)	(194)	(216)	(189)	(186)
Minority Interest	(241)	(169)	(343)	(257)	(254)
Preference Dividend	(46.9)	(64.5)	(68.7)	(64.3)	(64.3)
Net Profit	724	533	620	571	557
Net Profit before Except.	483	368	340	571	557
EBITDA	1,146	993	1,148	1,349	1,311
Growth					
Revenue Gth (%)	61.7	(3.4)	17.1	(29.9)	12.1
EBITDA Gth (%)	47.2	(13.3)	15.6	17.6	(2.9)
Opg Profit Gth (%)	33.0	(7.1)	17.9	17.9	10.7
Net Profit Gth (Pre-ex) (%)	16.6	(23.8)	(7.6)	67.8	(2.6)
Margins & Ratio					
Gross Margins (%)	30.4	30.0	29.4	46.7	46.3
Opg Profit Margin (%)	23.2	22.3	22.4	37.7	37.3
Net Profit Margin (%)	20.3	15.5	15.4	20.2	17.6
ROAE (%)	11.2	8.1	9.0	7.8	7.3
ROA (%)	3.3	2.3	2.4	2.1	1.9
ROCE (%)	3.4	2.8	3.2	3.4	3.7
Div Payout Ratio (%)	34.4	46.9	40.2	43.7	44.8
Net Interest Cover (x)	5.5	5.4	7.5	5.1	6.2

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Sep	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	972	706	1,399	951	740
Cost of Goods Sold	(614)	(477)	(1,015)	(736)	(471)
Gross Profit	357	228	383	215	269
Other Oper. (Exp)/Inc	(50.1)	(63.7)	(70.7)	(95.4)	(70.2)
Operating Profit	307	165	313	119	198
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	23.7	14.8	43.9	103	30.1
Net Interest (Exp)/Inc	(23.9)	(25.6)	(33.3)	(38.2)	(69.0)
Exceptional Gain/(Loss)	5.14	0.01	(0.2)	275	12.3
Pre-tax Profit	312	154	323	459	172
Tax	(59.0)	(26.1)	(74.6)	(56.0)	(35.1)
Minority Interest	(65.8)	(56.4)	(66.2)	(155)	(59.9)
Net Profit	188	71.2	182	248	76.9
Net profit bef Except.	182	71.2	183	(27.1)	64.6
EBITDA	360	210	388	249	256

Growth

Revenue Gth (%)	(18.2)	(27.4)	98.2	(32.0)	(22.2)
EBITDA Gth (%)	2.2	(41.5)	84.2	(35.9)	3.2
Opg Profit Gth (%)	42.9	(46.5)	90.0	(61.9)	66.5
Net Profit Gth (Pre-ex) (%)	182.6	(60.9)	156.3	(114.8)	(338.5)

Margins

Gross Margins (%)	36.8	32.3	27.4	22.6	36.3
Opg Profit Margins (%)	31.6	23.3	22.4	12.5	26.8
Net Profit Margins (%)	19.3	10.1	13.0	26.1	10.4

Balance Sheet (\$\$m)

FY Sep	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	1,991	1,972	2,241	2,184	2,127
Invt in Associates & JVs	585	793	1,432	1,657	1,730
Other LT Assets	14,150	14,467	16,864	17,013	17,161
Cash & ST Invt	1,393	2,178	2,409	3,231	3,525
Inventory	7.47	5.68	5.49	2.39	2.71
Debtors	844	678	479	403	452
Other Current Assets	4,096	4,111	3,579	3,924	4,304
Total Assets	23,067	24,204	27,009	28,415	29,302
ST Debt	1,020	1,470	1,572	1,572	1,572
Creditor	1,315	1,695	1,611	2,408	2,738
Other Current Liab	218	284	175	204	201
LT Debt	9,255	8,325	10,056	10,056	10,056
Other LT Liabilities	608	586	546	546	546
Shareholder's Equity	7,803	8,053	8,853	9,175	9,482
Minority Interests	2,848	3,791	4,196	4,453	4,707
Total Cap. & Liab.	23,067	24,204	27,009	28,415	29,302
Non-Cash Wkg. Capital	3,415	2,815	2,277	1,717	1,821
Net Cash/(Debt)	(8,882)	(7,617)	(9,218)	(8,397)	(8,103)
Debtors Turn (avg days)	84.8	80.7	52.4	57.0	49.3
Creditors Turn (avg days)	196.8	263.0	211.2	608.3	608.3
Inventory Turn (avg days)	1.1	0.9	0.7	0.6	0.6
Asset Turnover (x)	0.2	0.1	0.2	0.1	0.1
Current Ratio (x)	2.5	2.0	1.9	1.8	1.8
Quick Ratio (x)	0.9	0.8	0.9	0.9	0.9
Net Debt/Equity (X)	0.8	0.6	0.7	0.6	0.6
Net Debt/Equity ex MI (X)	1.1	0.9	1.0	0.9	0.9
Capex to Debt (%)	0.4	(0.5)	0.4	0.0	0.0
Z-Score (X)	0.0	0.0	0.0	0.9	0.9

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Sep	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	955	766	1,032	1,082	1,061
Dep. & Amort.	40.8	54.5	58.5	58.5	58.5
Tax Paid	(184)	(194)	(168)	(160)	(189)
Assoc. & JV Inc/(loss)	(279)	(171)	(185)	(225)	(72.7)
Chg in Wkg.Cap.	302	344	139	530	(99.6)
Other Operating CF	(151)	298	68.0	0.0	0.0
Net Operating CF	684	1,097	945	1,285	758
Capital Exp.(net)	(45.3)	50.6	(50.0)	0.0	0.0
Other Invt.(net)	(1,501)	(264)	(810)	(150)	(150)
Invt in Assoc. & JV	(57.9)	(317)	(1,228)	0.0	0.0
Div from Assoc & JV	350	197	160	0.0	0.0
Other Investing CF	(146)	(389)	199	0.0	0.0
Net Investing CF	(1,401)	(722)	(1,729)	(150)	(150)
Div Paid	(249)	(456)	(544)	(249)	(249)
Chg in Gross Debt	936	(940)	1,575	0.0	0.0
Capital Issues	649	1,000	0.0	0.0	0.0
Other Financing CF	(111)	340	149	(64.3)	(64.3)
Net Financing CF	1,225	(56.2)	1,180	(314)	(314)
Currency Adjustments	(8.4)	39.1	10.5	0.0	0.0
Chg in Cash	500	358	406	822	294
Opg CFPS (\$ cts)	13.2	26.0	27.8	26.0	29.6
Free CFPS (\$ cts)	22.1	39.6	30.8	44.3	26.1

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Jul 17	1.87	2.30	BUY
2:	28 Jul 17	1.94	2.30	BUY
3:	11 Aug 17	1.90	2.35	BUY
4:	12 Sep 17	2.13	2.35	BUY
5:	13 Nov 17	2.05	2.35	BUY
6:	15 Dec 17	2.12	2.35	BUY
7:	12 Feb 18	1.93	2.35	BUY
8:	13 Apr 18	1.97	2.35	BUY
9:	05 Jul 18	1.67	2.35	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

Singapore Company Guide

UOL Group

Version 11 | Bloomberg: UOL SP | Reuters: UTOS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Jul 2018

HOLD (Downgrade from BUY)

Last Traded Price (5 Jul 2018): S\$7.75 (STI : 3,256.71)
Price Target 12-mth: S\$7.82 (1% upside) (Prev S\$10.23)

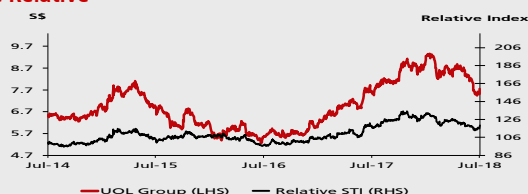
Analyst

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What's New

- Government surprised the market with the hike in ABSD and tightening of mortgages, just over a year after the government relaxed policy measures
- Buyer sentiment will be impacted
- More room in pricing being earliest to land bank at a lower price
- Downgrade to HOLD, lowered TP to S\$7.82

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2016A	2017A	2018F	2019F
Revenue	1,441	2,103	2,054	1,728
EBITDA	483	667	963	864
Pre-tax Profit	354	1,049	724	617
Net Profit	287	891	511	419
Net Pft (Pre Ex.)	324	352	511	419
Net Pft Gth (Pre-ex) (%)	(5.3)	8.5	45.2	(17.9)
EPS (S cts)	35.7	106	60.7	49.8
EPS Pre Ex. (S cts)	40.3	41.8	60.7	49.8
EPS Gth Pre Ex (%)	(6)	4	45	(18)
Diluted EPS (S cts)	35.7	106	60.7	49.8
Net DPS (S cts)	15.0	17.5	17.5	17.5
BV Per Share (S cts)	1,010	1,122	1,165	1,198
PE (X)	21.7	7.3	12.8	15.6
PE Pre Ex. (X)	19.2	18.5	12.8	15.6
P/Cash Flow (X)	11.6	7.0	25.6	13.7
EV/EBITDA (X)	18.2	21.3	14.9	16.6
Net Div Yield (%)	1.9	2.3	2.3	2.3
P/Book Value (X)	0.8	0.7	0.7	0.6
Net Debt/Equity (X)	0.2	0.2	0.2	0.2
ROAE (%)	3.6	10.1	5.3	4.2
Earnings Rev (%)			0	0
Consensus EPS (S cts):			49.3	49.1
Other Broker Recs:		B: 12	S: 1	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

More room to maneuver

Downgrade to HOLD; lowered TP to S\$7.82. We downgrade to HOLD from BUY previously on UOL Group (UOL) and lowered our TP to S\$7.82 from previously S\$10.23 on higher discount to RNAV of 35% from previously 15%. The surprised move by the government in hiking ABSD rates and tightening mortgages (just over a year after the government relaxed the policy measures) will hit buyer sentiment significantly.

Where we differ: More room in pricing with land bank acquired at a lower price. Despite UOL being one of the proxies to Singapore property and negative buyers' sentiment would impact its new property launches, we believe UOL may be less impacted as being the earliest to land bank at a lower price would allow UOL more room in pricing its properties. All of its landbank except Silat Avenue was acquired in 2016.

Potential catalysts: Property sales remain strong despite change in sentiment, recovery in office rental rates and hotel RevPAR.

Recovery in office rental rates and hotel RevPAR could be a potential catalyst. Aside from its residential portfolio, we believe UOL's office and hotel investment properties could potentially benefit from a recover on the office rental rates and hotel RevPAR from lack of new supply in the next few years. This provides a stable recurring income to compensate fluctuations in the development properties.

Valuation:

Downgrade to HOLD rating from BUY previously. We lower our TP to S\$ 7.82 from S\$10.23 previously, pegged to higher discount to our RNAV of 35%, taking into account the heightened uncertainty from government tightening measures.

Key Risks to Our View:

Economic slowdown. The downside risk to our projections is if residential sales are slower than our projections or if commercial properties and hotels operations are impacted by slower-than-projected growth in rental/room rates.

At A Glance

Issued Capital (m shrs)	843
Mkt. Cap (S\$m/US\$m)	6,530 / 4,784
Major Shareholders (%)	
CY Wee & Co Pte Ltd	13.9
Wee Investment Pte Ltd	13.4
United Overseas Bank	7.5
Free Float (%)	59.8
3m Avg. Daily Val (US\$m)	8.5
ICB Industry : Financials / Real Estate	

CRITICAL DATA POINTS TO WATCH

Critical Factors

Retail and office sub-segments to offer stable returns. UOL Group Limited (UOL) derives a significant 47-58% of its revenues from retail, office and hotel segments which should continue delivering stable cashflows in the coming years. While we see headwinds in both the retail and office segments ahead, we believe that the positioning and location of UOL’s portfolio of commercial properties, mainly along the fringe areas of the CBD, will result in lower volatility in rents.

UIC’s portfolio of investment properties are complementary to the group’s exposure in largely city fringe properties as a majority of the group’s properties are located in the central business district (CBD). With close to c.21% of the space up for renewal in 2018, the tight competitive supply within the CBD will, in our view result in potentially stronger rental reversionary prospects.

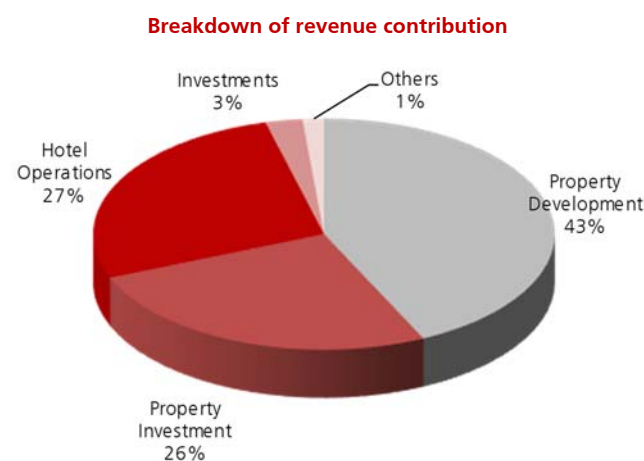
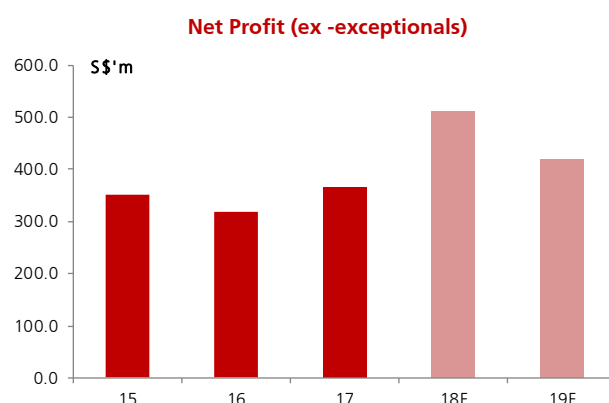
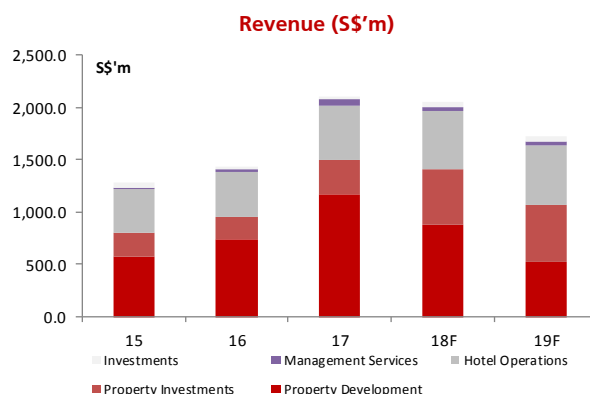
Its retail malls - United Square and Novena Square - are located in the Novena area, close to the emerging medical hub. The malls have formed a niche, which should result in high tenant stickiness. This is especially so for United Square, which houses tenants well known for providing various children’s education programmes. On the other hand, Novena Square’s tenant mix mainly caters to necessity shopping and the needs of the vicinity’s growth as a medical hub.

Hotel performance – weakness in Asia; overall outlook stable.

Growth will be driven by the acquisition of Pan Pacific Melbourne in 2017 while performances from hotels and serviced residences are expected to turn up on the back of stronger economic growth driving business travel. We expect the operational performance of the group’s hotels and residences in Singapore and Australia to turn up. Portfolio RevPAR is expected to improve to the tune of c.3% in 2018. UOL is also revamping Pan Pacific Hotel Orchard into a 340-room “green hotel”, completing in 2021.

Presales for residential projects doing well amid muted residential outlook.

As of FY17, UOL has substantially sold most of its projects (c.1,090 properties for S\$1.05bn) that are completed or currently under development and has added three sites which could yield close to 925 units when launched over the coming two years. Management believes that the Singapore property market has found a steady state at current levels and the increase in industry sales volume has been encouraging. The launch of the recently acquired sites at 45 Amber Road, Nanak Mansions and Raintree Gardens will be keenly watched given the group’s dwindling land bank.

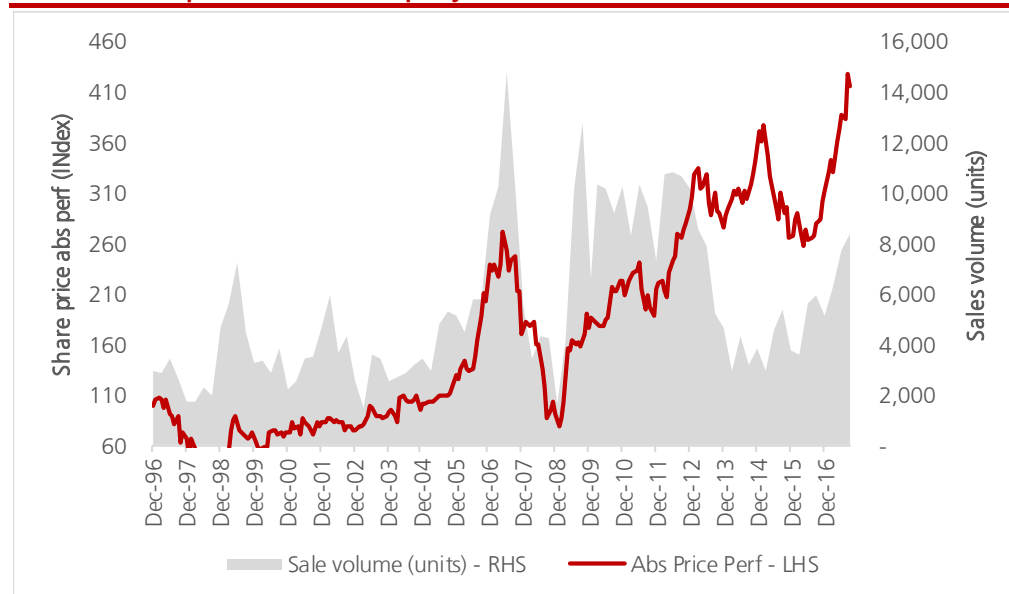


RNAV	
Breakdown of RNAV	OMV (\$m)
Properties	
Investment Properties	4,142
less book value	-4,243
Surplus/deficit	-100
NPV of devt profits	773
Mark to TP value of quoted holdings	
Listed equities/Strategic Holdings	4,938
Hotel operations	3,175
Total	8,113
less book value	-6,781
Surplus	1,332
Book NAV	8,127
RNAV	10,132
Total Shares	842
RNAV/share (\$)	12.04
Discount	35%
Price Target (\$)	7.82

Source: Company, DBS Bank

Appendix 1:

UOL's absolute performance vs Property sales volume

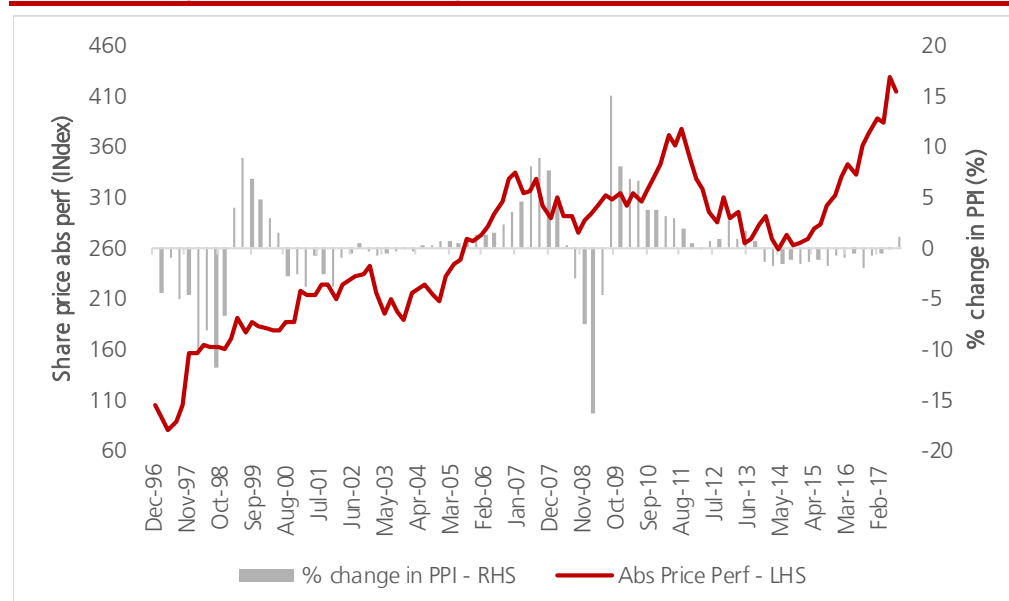


Remarks

Share price performance is positively correlated to the property sales volume.

Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

UOL's absolute performance vs % change in PPI



Remarks

While we saw some positive correlation in period 2006 to 2014, we do not see major correlation thereafter.

Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

UOL Group

Balance Sheet:

Balance sheet remains strong. Debt-to-equity ratio is expected to remain stable at 0.3x from FY17A-FY18F. This leaves UOL with sufficient headroom to acquire projects/new sites when such opportunities come by.

Share Price Drivers:

Replenishing land bank key to income sustainability. The group turns around its projects quickly and has little land bank on its balance sheet. UOL has always been active in land tenders to replenish its land bank especially in Singapore but remains selective given the high competitive environment seen in recent government land tenders. The ability to secure additional land bank at lower prices will mean upside to RNAVs and this could re-rate the stock

Strong transaction volumes to drive higher margins. With the property market on an uptrend and we project a price increase of 6-10% over 2018-2019. We believe that UOL, as a proxy to the Singapore property market, is expected to see higher share prices in 2018. Stronger-than-expected rise in prices could mean prospects of higher margins for the group's upcoming launches which will act as a catalyst for further re-rating.

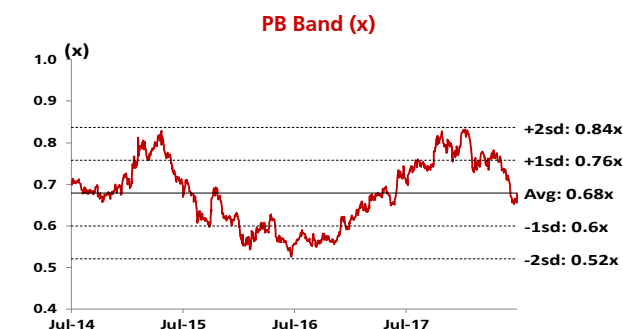
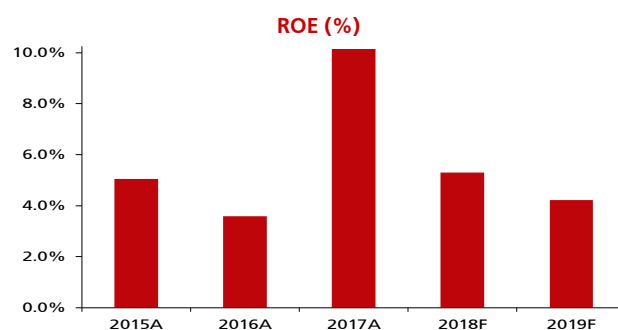
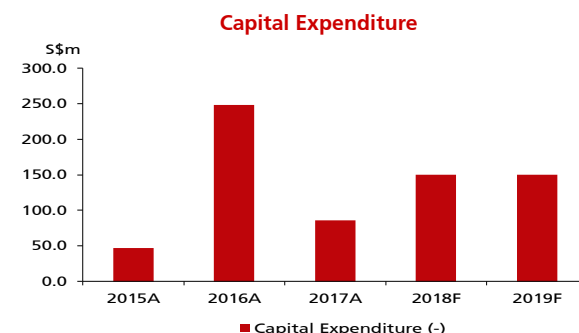
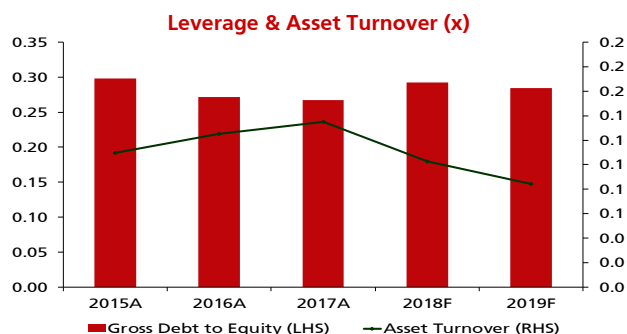
Deep value from its hotel business. We believe that deep value lies in the group's portfolio of well-located hotels and serviced residences in Singapore, Malaysia and Australia. These hotels are held on a historical cost basis, which we believe is conservative compared to potential realisable value.

Key Risks:

Economic slowdown. The downside risk to our projections is if residential sales are slower than projected or if its hotel operations are impacted by slower-than-projected RevPAR performance. The upside risks to our view and target price would be higher-than-expected selling prices or upgrades to the target prices of its listed investment holdings.

Company Background

With a track record of nearly 50 years, UOL Group's impressive list of property development projects includes best-selling residential units, office towers, shopping centres, hotels and serviced suites.



Source: Company, DBS Bank

Income Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	1,279	1,441	2,103	2,054	1,728
Cost of Goods Sold	(775)	(956)	(1,403)	(1,097)	(921)
Gross Profit	504	485	700	957	806
Other Opng (Exp)/Inc	(231)	(222)	(302)	(329)	(276)
Operating Profit	273	263	398	629	530
Other Non Opg (Exp)/Inc	18.4	17.2	19.3	19.3	19.3
Associates & JV Inc	156	136	119	183	183
Net Interest (Exp)/Inc	(35.6)	(24.9)	(26.3)	(107)	(116)
Exceptional Gain/(Loss)	48.8	(37.3)	539	0.0	0.0
Pre-tax Profit	460	354	1,049	724	617
Tax	(47.2)	(48.3)	(62.0)	(86.9)	(74.0)
Minority Interest	(21.8)	(18.6)	(96.0)	(127)	(123)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	391	287	891	511	419
Net Profit before Except.	343	324	352	511	419
EBITDA	514	483	667	963	864
Growth					
Revenue Gth (%)	(6.0)	12.7	46.0	(2.3)	(15.9)
EBITDA Gth (%)	(14.8)	(6.2)	38.3	44.2	(10.3)
Opg Profit Gth (%)	(26.6)	(3.8)	51.6	57.9	(15.7)
Net Profit Gth (Pre-ex) (%)	(5.9)	(5.3)	8.5	45.2	(17.9)
Margins & Ratio					
Gross Margins (%)	39.4	33.7	33.3	46.6	46.7
Opg Profit Margin (%)	21.4	18.2	18.9	30.6	30.7
Net Profit Margin (%)	30.6	19.9	42.4	24.9	24.3
ROAE (%)	5.0	3.6	10.1	5.3	4.2
ROA (%)	3.4	2.5	5.7	2.6	2.0
ROCE (%)	2.2	2.0	2.5	2.9	2.4
Div Payout Ratio (%)	30.5	42.0	16.5	28.8	35.1
Net Interest Cover (x)	7.7	10.6	15.2	5.9	4.6

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	351	399	538	815	661
Cost of Goods Sold	(235)	(267)	(370)	(531)	(428)
Gross Profit	116	132	168	284	233
Other Oper. (Exp)/Inc	(53.3)	(54.5)	(72.8)	(121)	(91.8)
Operating Profit	62.4	77.5	95.3	163	141
Other Non Opg (Exp)/Inc	4.58	3.94	5.60	5.14	6.04
Associates & JV Inc	34.4	45.4	37.2	1.75	1.19
Net Interest (Exp)/Inc	(4.8)	(8.0)	(8.6)	(5.0)	(10.2)
Exceptional Gain/(Loss)	0.92	13.7	527	(2.6)	0.03
Pre-tax Profit	97.6	132	657	162	139
Tax	(11.3)	(10.6)	(17.0)	(23.2)	(27.1)
Minority Interest	(6.0)	(12.4)	(21.7)	(55.8)	(37.6)
Net Profit	80.3	109	618	83.2	73.8
Net profit bef Except.	79.4	95.8	90.9	85.9	73.8
EBITDA	119	144	175	230	194

Growth

Revenue Gth (%)	(0.8)	13.8	34.8	51.6	(18.9)
EBITDA Gth (%)	1.2	21.1	22.1	31.1	(15.4)
Opg Profit Gth (%)	4.4	24.1	23.1	71.0	(13.2)
Net Profit Gth (Pre-ex) (%)	22.0	20.7	(5.1)	(5.5)	(14.1)

Margins

Gross Margins (%)	33.0	33.1	31.3	34.8	35.3
Opg Profit Margins (%)	17.8	19.4	17.7	20.0	21.4
Net Profit Margins (%)	22.9	27.4	114.9	10.2	11.2

Balance Sheet (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	1,179	1,166	2,856	2,875	2,894
Invt in Associates & JVs	3,366	3,488	286	470	653
Other LT Assets	4,981	5,312	12,325	12,325	12,325
Cash & ST Invt	276	302	816	1,274	1,453
Inventory	0.73	0.65	4.99	0.93	0.78
Debtors	197	99.6	395	386	325
Other Current Assets	1,501	1,191	2,939	3,017	2,972
Total Assets	11,501	11,558	19,623	20,348	20,622
ST Debt	523	728	973	973	973
Creditor	238	203	928	685	576
Other Current Liab	42.1	51.0	110	87.6	74.6
LT Debt	1,980	1,614	2,808	3,308	3,308
Other LT Liabilities	317	326	660	660	660
Shareholder's Equity	7,894	8,127	9,445	9,809	10,081
Minority Interests	507	508	4,701	4,828	4,951
Total Cap. & Liab.	11,501	11,558	19,623	20,348	20,622
Non-Cash Wkg. Capital	1,419	1,038	2,301	2,632	2,647
Net Cash/(Debt)	(2,227)	(2,041)	(2,964)	(3,006)	(2,828)
Debtors Turn (avg days)	63.5	37.6	42.9	69.4	75.1
Creditors Turn (avg days)	134.1	90.6	162.3	304.8	291.2
Inventory Turn (avg days)	0.4	0.3	0.8	1.1	0.4
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	2.5	1.6	2.1	2.7	2.9
Quick Ratio (x)	0.6	0.4	0.6	1.0	1.1
Net Debt/Equity (X)	0.3	0.2	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.3	0.3	0.3	0.3	0.3
Capex to Debt (%)	1.9	10.6	(2.3)	3.5	3.5
Z-Score (X)	2.3	2.4	1.6	1.6	1.6

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	413	354	1,049	724	617
Dep. & Amort.	67.2	66.6	131	131	131
Tax Paid	(66.7)	(33.5)	(50.7)	(109)	(86.9)
Assoc. & JV Inc/(loss)	(156)	(136)	(119)	(183)	(183)
Chg in Wkg.Cap.	259	260	480	(308)	(1.6)
Other Operating CF	(0.1)	27.7	(554)	0.0	0.0
Net Operating CF	517	539	936	255	476
Capital Exp.(net)	(47.0)	(248)	86.1	(150)	(150)
Other Invts.(net)	0.68	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	79.8	(61.7)	(164)	0.0	0.0
Div from Assoc & JV	42.0	57.4	33.0	0.0	0.0
Other Investing CF	(12.3)	3.12	0.0	0.0	0.0
Net Investing CF	63.2	(249)	(45.2)	(150)	(150)
Div Paid	(64.3)	(66.3)	(72.0)	(147)	(147)
Chg in Gross Debt	(466)	(105)	(307)	500	0.0
Capital Issues	7.93	1.10	0.0	0.0	0.0
Other Financing CF	(62.1)	(88.2)	3.28	0.0	0.0
Net Financing CF	(584)	(259)	(376)	353	(147)
Currency Adjustments	(5.7)	(5.9)	0.0	0.0	0.0
Chg in Cash	(10.1)	25.1	515	458	179
Opg CFPS (S cts)	32.4	34.6	54.3	66.9	56.7
Free CFPS (S cts)	59.0	36.1	121	12.4	38.7

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Jul 17	7.46	8.73	BUY
2:	26 Jul 17	7.92	8.73	BUY
3:	28 Jul 17	7.83	8.73	BUY
4:	28 Aug 17	8.13	8.73	BUY
5:	12 Sep 17	8.06	8.73	BUY
6:	07 Nov 17	8.82	8.73	BUY
7:	10 Nov 17	8.75	10.15	BUY
8:	15 Dec 17	8.54	10.15	BUY
9:	19 Feb 18	8.61	10.15	BUY
10:	06 Mar 18	8.53	10.23	BUY
11:	19 Mar 18	8.69	10.23	BUY
12:	14 May 18	8.61	10.23	BUY
13:	16 May 18	8.35	10.23	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

Singapore Company Guide

City Developments

Version 12 | Bloomberg: CIT SP | Reuters: CTDM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Jul 2018

FULLY VALUED (Downgrade from BUY)

Last Traded Price (5 Jul 2018): S\$11.21 (STI : 3,256.71)

Price Target 12-mth: S\$10.00 (-11% downside) (Prev S\$15.40)

Analyst

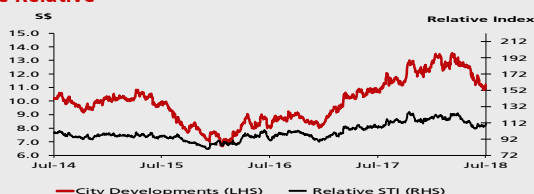
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What's New

- The government surprised the market by hiking ABSD and tightening mortgages, just over a year after measures were relaxed
- Buyer sentiment will be impacted
- Margins may be impacted if the land was acquired at aggressive prices (likely during late 2017-2018)
- Downgrade to FULLY VALUED; cut TP to S\$10

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2016A	2017A	2018F	2019F
Revenue	3,905	3,829	3,633	4,520
EBITDA	1,050	984	1,313	1,430
Pre-tax Profit	914	780	1,060	1,147
Net Profit	640	525	787	838
Net Pft (Pre Ex.)	474	448	787	838
Net Pft Gth (Pre-ex) (%)	7.2	(5.5)	75.8	6.5
EPS (S cts)	70.4	57.8	86.6	92.2
EPS Pre Ex. (S cts)	52.1	49.2	86.6	92.2
EPS Gth Pre Ex (%)	7	(6)	76	6
Diluted EPS (S cts)	67.1	55.0	82.5	87.8
Net DPS (S cts)	17.4	14.0	16.0	16.0
BV Per Share (S cts)	1,022	1,054	1,127	1,203
PE (X)	15.9	19.4	12.9	12.2
PE Pre Ex. (X)	21.5	22.8	12.9	12.2
P/Cash Flow (X)	8.6	9.5	655.2	4.6
EV/EBITDA (X)	13.7	13.8	11.3	9.4
Net Div Yield (%)	1.6	1.2	1.4	1.4
P/Book Value (X)	1.1	1.1	1.0	0.9
Net Debt/Equity (X)	0.2	0.1	0.2	0.1
ROAE (%)	7.0	5.6	7.9	7.9
Earnings Rev (%)			0	0
Consensus EPS (S cts)			68.2	71.5
Other Broker Recs:		B: 20	S: 0	H: 3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Change in wind direction

Downgrade to FULLY VALUED; TP cut to S\$10. We downgrade our rating on City Developments to FULLY VALUED from BUY and cut our TP to S\$10.00 (previously S\$15.40) by raising our discount to RNAV to 35% from no discount previously. The surprised move by the government in hiking ABSD rates and tightening mortgages (just over a year after the government relaxed measures) will hit buyer sentiment significantly.

Where we differ: Negative sentiment to hit Singapore's developer with the largest unsold inventory. Given the heightened uncertainty on property sales in the coming quarters coupled with the group having the largest inventory of new units to be launched, City Developments' share price is likely to be weak in the immediate term. In addition, margins of units from the landbank acquired in late 2017 - 2018 could be impacted given that the ability to raise property prices could now be limited following a turn in sentiment.

Potential catalyst: Property sales remain strong despite the change in sentiment; successful launch of its fund management platform.

Upcoming launches could be impacted. City Development had been aggressive in landbanking with over 3k residential units in the pipeline to be launched in 2H2018 to 2019. Upcoming launches such as South Beach Residences, West Coast Vale and the former Boulevard Hotel site will be impacted. City Developments could delay launches, and adopt a wait and see stance given that it has the firepower to ride out the headwinds. However, margins for projects like Handy Road, Sumang Walk and Amber Park could be affected.

Valuation:

We downgrade the stock to FULLY VALUED (from BUY), and cut TP to S\$10 from S\$15.40, based on 35% discount to RNAV, which implies 0.9x P/NAV.

Key Risks to Our View:

Non-completion of privatisation. The inability to complete the privatisation exercise on M&C could limit potential upside to RNAV.

At A Glance

Issued Capital (m shrs)	909
Mkt. Cap (\$m/US\$m)	10,193 / 7,468
Major Shareholders (%)	
Davos Investments Holdings Ltd	16.4
Hong Leong Investment	15.4
Standard Life Aberdeen	6.0
Free Float (%)	57.2
3m Avg. Daily Val (US\$m)	15.1
ICB Industry : Financials / Real Estate	

CRITICAL DATA POINTS TO WATCH

Critical Factors

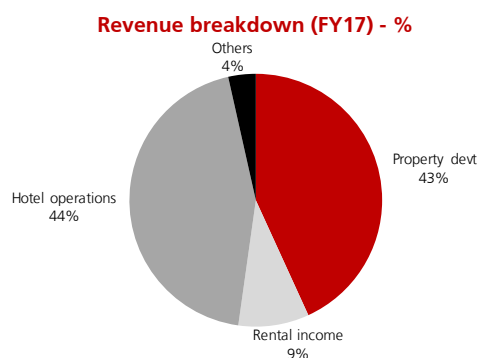
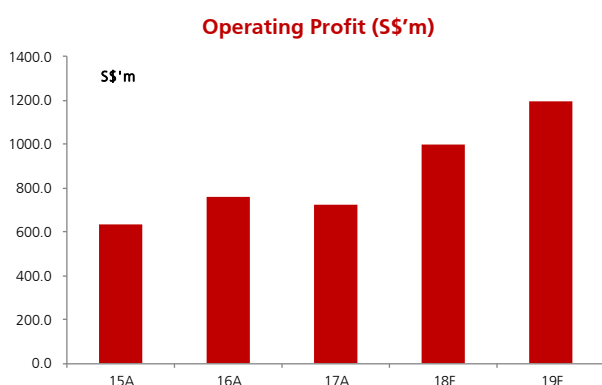
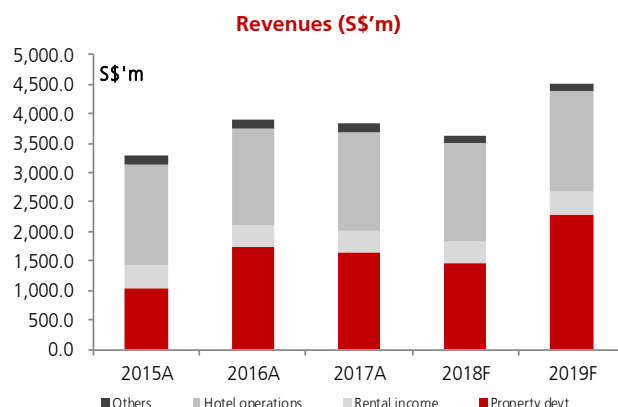
Upcoming launches could be impacted. City Development had been aggressive in landbanking with over 3k residential units in the pipeline to be launched in 2H2018 to 2019. Upcoming launches such as South Beach Residences, West Coast Vale and the former Boulevard Hotel site will be impacted. City Developments could delay launches, and adopt a wait and see stance given that it has the firepower to ride out the headwinds. However, margins for projects like Handy Road, Sumang Walk and Amber Park could be affected.

Strong sales momentum seen in existing projects. Residential sales momentum has been strong for the group, achieving 1,171 units with sales value of S\$1.93bn. From the group's portfolio of launched projects in Singapore, it has a further 232 unsold inventory on its books (effective stake of 178 units). Based on estimates, the total unsold inventory (launched and unlaunched projects) could be worth up to S\$6bn. This will make City Dev the group with the largest share of unsold inventory in the market.

Overseas investments to bear fruit in 2018. In London – City Dev will progressively complete projects at Belgravia and Knightsbridge in 2018 while the Teddington Riverside development is planned for completion by end 2019. Other projects like the Stag Brewery Mortlake site and the recently acquired site at Ransomes Wharf (acquired for GBP58m, GDV of GBP222m) is expected to be launched in the medium term.

In **China**, City Dev will continue to focus on the execution and delivery of Hong Leong City Center. Phase 1 is 86% sold (sales value RMB2.6bn) and phase 2 is 89% sold with sales value of RMB928m adding to the group's earnings visibility and de-risking its exposure in these properties.

Fund management platform. The group intends to accelerate its efforts to develop a fund management business to drive recurring income and to achieve a more efficient capital structure and offer recycling opportunities for the group to deploy capital more actively. With three Profit Participation Securities (PPS) already under the fund management platform, the group intends to launch more co-mingled funds or JV, acquire platforms and manage third-party capital. The group aims to build an AUM of US\$5bn by 2023.



RNAV	
	S\$m
Investment Portfolio (office)	3,434.5
Investment Portfolio (mixed Development)	1,505.1
Investment Portfolio (hotels)	1,071.5
Investment Portfolio (retail)	934.4
Investment Portfolio (industrial and others)	137.4
GDV of residential portfolio	5,561.1
Listed Stakes in	
M&C	3,118.0
CDL HT	412.0
Others	0.0
Gross Asset Value	16,174.0
Less: pref conversion	(211.8)
Less: Net debt	(1,264.7)
RNAV of CDL	14,697.5
No of shares	954.3
RNAV/share	15.40
Discount	35%
TP	10.00

Source: Company, DBS Bank

Balance Sheet:

Undervalued Net Asset Value (NAV). As the group has chosen to account for investment properties on a historical cost basis, its NAV is conservative as we estimate that current fair values of City Dev’s properties are much higher than their carrying values.

Low gearing of 9%. City Dev’s gearing stands at 9% as at FY17. This provides greater financial flexibility and debt headroom for the group to acquire opportunistically.

Share Price Drivers:

If sales volume remains sustainable despite property measures.

Following the government implemented property tightening measures, we believe sentiment would impact sales take-up rates on new property launches. However, if sales volume could remain sustainable (similar to the previous upcycle in 2010 to 2012), this would bode well for City Dev’s new property launches.

Successful launch of its fund management. The group intends to accelerate its efforts to develop a fund management business to drive recurring income and to achieve a more efficient capital structure and offer recycling opportunities for the group to deploy capital more actively. The successful launch of the fund management business will ensure stability of recurring income.

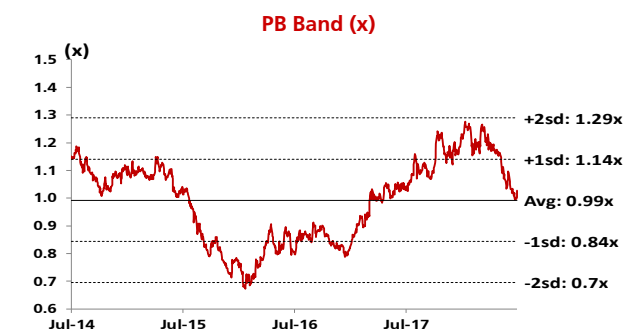
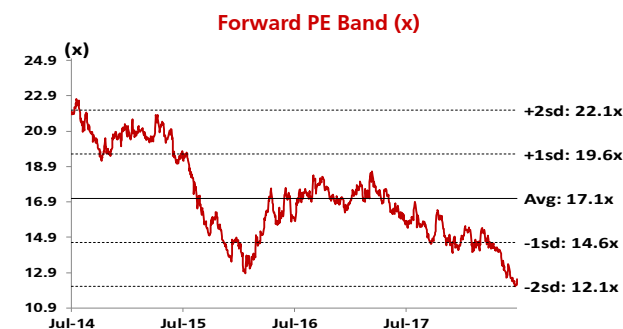
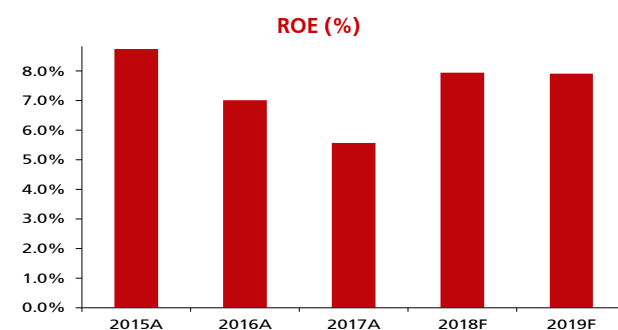
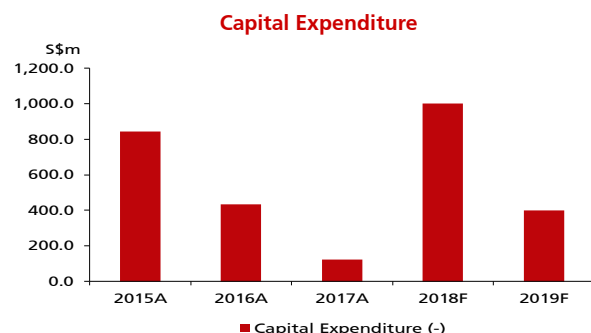
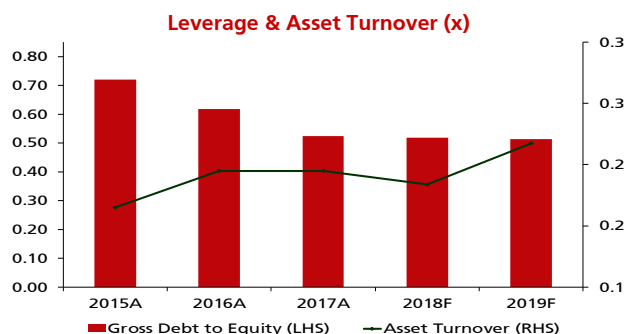
Key Risks:

Decline in residential prices in Singapore. Seen as a proxy to Singapore’s residential market, a worsening of the operating environment is expected to cap any upside potential for the stock. Unsold inventories are mainly in the high-end and executive segments whose unsold stocks typically take time to clear.

Interest rate risk. A rise in interest rates will have a negative impact on property transactions, given lower affordability and thus could adversely affect the group’s outlook.

Company Background

City Developments Limited (City Dev) is one of the pioneers in Singapore's property sector. It is a property and hotel conglomerate involved in real estate development and investment, hotel ownership and management, and facility management.



Source: Company, DBS Bank

City Developments

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (\$\$m)					
Property devt	1,037	1,745	1,653	1,471	2,301
Rental income	405	367	347	366	373
Hotel operations	1,698	1,634	1,694	1,661	1,711
	163	160	135	135	135
Others	0.0	0.0	0.0	0.0	0.0
Total	3,304	3,905	3,829	3,633	4,520
Pre-tax Profit (\$\$m)					
Property devt	356	520	445	528	787
Rental income	460	207	168	122	124
Hotel operations	171	116	149	245	253
Others	(1.6)	71.3	(0.5)	105	28.9
Total	985	914	761	1,000	1,193
Pre-tax Profit Margins					
Property devt	34.3	29.8	26.9	35.9	34.2
Rental income	113.5	56.5	48.5	33.3	33.3
Hotel operations	10.1	7.1	8.8	14.8	14.8
	0.0	0.0	0.0	0.0	0.0
Others	N/A	N/A	N/A	N/A	N/A
Total	29.8	23.4	19.9	27.5	26.4

Income Statement (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	3,304	3,905	3,829	3,633	4,520
Cost of Goods Sold	(1,648)	(2,148)	(2,144)	(1,678)	(2,139)
Gross Profit	1,656	1,758	1,685	1,955	2,381
Other Opng (Exp)/Inc	(1,024)	(1,001)	(963)	(955)	(1,188)
Operating Profit	632	757	722	1,000	1,193
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	107	70.5	45.5	96.9	21.3
Net Interest (Exp)/Inc	(72.2)	(80.1)	(64.9)	(37.1)	(66.9)
Exceptional Gain/(Loss)	318	166	77.6	0.0	0.0
Pre-tax Profit	985	914	780	1,060	1,147
Tax	(119)	(151)	(105)	(145)	(169)
Minority Interest	(92.7)	(109)	(137)	(115)	(127)
Preference Dividend	(12.9)	(12.9)	(12.9)	(12.9)	(12.9)
Net Profit	760	640	525	787	838
Net Profit before Except.	442	474	448	787	838
EBITDA	954	1,050	984	1,313	1,430
Growth					
Revenue Gth (%)	(12.2)	18.2	(2.0)	(5.1)	24.4
EBITDA Gth (%)	1.6	10.1	(6.3)	33.5	8.9
Opg Profit Gth (%)	(7.6)	19.8	(4.6)	38.5	19.3
Net Profit Gth (Pre-ex) (%)	10.2	7.2	(5.5)	75.8	6.5
Margins & Ratio					
Gross Margins (%)	50.1	45.0	44.0	53.8	52.7
Opg Profit Margin (%)	19.1	19.4	18.9	27.5	26.4
Net Profit Margin (%)	23.0	16.4	13.7	21.7	18.5
ROAE (%)	8.7	7.0	5.6	7.9	7.9
ROA (%)	3.8	3.2	2.7	4.0	4.0
ROCE (%)	3.1	3.5	3.5	4.8	5.3
Div Payout Ratio (%)	20.8	24.7	24.2	18.5	17.4
Net Interest Cover (x)	8.8	9.5	11.1	27.0	17.8

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	784	854	863	1,328	1,058
Cost of Goods Sold	(418)	(438)	(437)	(852)	(695)
Gross Profit	366	416	427	476	363
Other Oper. (Exp)/Inc	(101)	(85.2)	(60.5)	(108)	(55.7)
Operating Profit	133	203	238	226	183
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.20	(1.9)	18.2	29.0	8.90
Net Interest (Exp)/Inc	(18.2)	(15.5)	(15.5)	(15.7)	(24.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	115	185	241	239	167
Tax	(15.6)	(30.8)	(39.0)	(20.1)	(33.5)
Minority Interest	(13.8)	(44.7)	(45.9)	(32.3)	(53.9)
Net Profit	85.5	110	156	187	80.0
Net profit bef Except.	85.5	110	156	187	80.0
EBITDA	186	255	312	308	242

Growth

Revenue Gth (%)	(32.8)	9.0	1.1	53.8	(20.3)
EBITDA Gth (%)	(55.5)	37.1	22.2	(1.2)	(21.6)
Opg Profit Gth (%)	(58.7)	52.6	17.6	(5.3)	(19.2)
Net Profit Gth (Pre-ex) (%)	(64.9)	28.6	42.2	19.6	(57.1)

Margins

Gross Margins (%)	46.7	48.7	49.4	35.9	34.3
Opg Profit Margins (%)	16.9	23.7	27.6	17.0	17.3
Net Profit Margins (%)	10.9	12.9	18.1	14.1	7.6

Balance Sheet (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	5,175	5,136	5,014	5,798	5,982
Invt in Associates & JVs	1,307	1,462	1,558	1,655	1,677
Other LT Assets	2,949	3,120	3,472	3,502	3,502
Cash & ST Invt	3,597	3,690	3,849	2,994	4,935
Inventory	11.2	11.8	11.0	8.62	11.0
Debtors	1,762	1,166	1,036	983	1,223
Other Current Assets	5,519	5,213	4,565	5,117	4,217
Total Assets	20,319	19,797	19,503	20,056	21,546
ST Debt	1,911	1,783	1,266	1,266	1,266
Creditor	1,602	1,575	1,604	1,256	1,601
Other Current Liab	319	301	391	218	242
LT Debt	4,572	3,955	3,756	4,056	4,356
Other LT Liabilities	702	774	645	645	645
Shareholder's Equity	8,996	9,294	9,584	10,243	10,936
Minority Interests	2,217	2,115	2,258	2,373	2,500
Total Cap. & Liab.	20,319	19,797	19,503	20,056	21,546
Non-Cash Wkg. Capital	5,371	4,515	3,616	4,635	3,608
Net Cash/(Debt)	(2,885)	(2,047)	(1,172)	(2,327)	(687)
Debtors Turn (avg days)	185.0	136.8	105.0	101.4	89.1
Creditors Turn (avg days)	390.3	301.1	301.0	357.0	271.1
Inventory Turn (avg days)	2.9	2.2	2.2	2.5	1.9
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	2.8	2.8	2.9	3.3	3.3
Quick Ratio (x)	1.4	1.3	1.5	1.5	2.0
Net Debt/Equity (X)	0.3	0.2	0.1	0.2	0.1
Net Debt/Equity ex MI (X)	0.3	0.2	0.1	0.2	0.1
Capex to Debt (%)	(13.0)	7.5	2.4	18.8	7.1
Z-Score (X)	1.8	2.0	2.0	2.1	2.1

Source: Company, DBS Bank

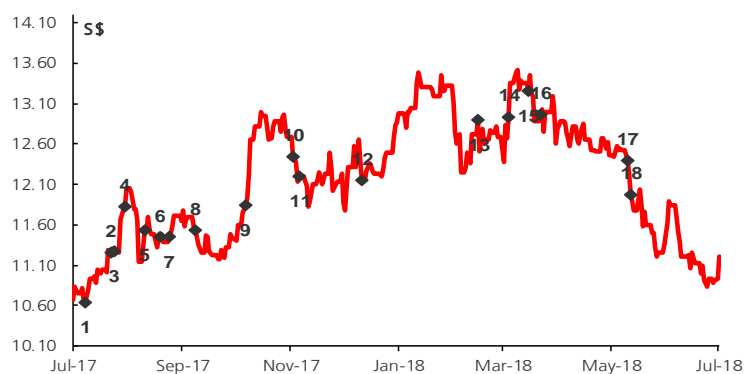
City Developments

Cash Flow Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	985	914	780	1,060	1,147
Dep. & Amort.	215	222	216	216	216
Tax Paid	(194)	(157)	(162)	(318)	(145)
Assoc. & JV Inc/(loss)	(107)	(70.5)	(45.5)	(96.9)	(21.3)
Chg in Wkg.Cap.	(712)	330	286	(845)	1,002
Other Operating CF	(110)	(57.4)	0.93	0.0	0.0
Net Operating CF	77.8	1,181	1,076	15.6	2,200
Capital Exp.(net)	843	(433)	(123)	(1,000)	(400)
Other Invt.(net)	0.0	0.0	(48.3)	(30.0)	0.0
Invt in Assoc. & JV	(227)	(113)	(58.6)	(100.0)	(100.0)
Div from Assoc & JV	16.9	53.9	99.6	99.6	99.6
Other Investing CF	(113)	810	38.9	0.0	0.0
Net Investing CF	520	318	(91.0)	(1,030)	(400)
Div Paid	(271)	(237)	(244)	(140)	(158)
Chg in Gross Debt	(310)	(664)	(458)	300	300
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(333)	(440)	(220)	0.0	0.0
Net Financing CF	(914)	(1,341)	(922)	160	142
Currency Adjustments	(16.6)	(49.7)	39.6	0.0	0.0
Chg in Cash	(333)	108	103	(855)	1,941
Opg CFPS (\$ cts)	86.8	93.6	86.9	94.7	132
Free CFPS (\$ cts)	101	82.3	105	(108)	198

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Jul 17	10.64	12.63	BUY
2:	26 Jul 17	11.26	12.63	BUY
3:	28 Jul 17	11.28	12.63	BUY
4:	03 Aug 17	11.83	12.63	BUY
5:	14 Aug 17	11.53	12.63	BUY
6:	23 Aug 17	11.45	12.63	BUY
7:	28 Aug 17	11.45	12.63	BUY
8:	12 Sep 17	11.53	12.63	BUY
9:	10 Oct 17	11.85	12.63	BUY
10:	06 Nov 17	12.44	12.63	BUY
11:	10 Nov 17	12.20	14.03	BUY
12:	15 Dec 17	12.15	14.03	BUY
13:	19 Feb 18	12.90	14.03	BUY
14:	08 Mar 18	12.94	15.40	BUY
15:	19 Mar 18	13.25	15.40	BUY
16:	26 Mar 18	12.97	15.40	BUY
17:	14 May 18	12.40	15.40	BUY
18:	16 May 18	11.97	15.40	BUY

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

Singapore Company Guide

APAC Realty

Version 5 | Bloomberg: APAC SP | Reuters: APAC.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Jul 2018

FULLY VALUED (downgrade from BUY)

Last Traded Price (5 Jul 2018): S\$0.78 (STI : 3,256.71)

Price Target 12-mth: S\$0.66 (-16% downside) (Prev S\$1.22)

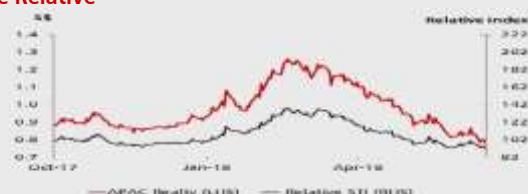
Analyst

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What's New

- New property measures to affect property transaction activities
- Cut FY18F and FY19F private transaction values; expect 5% decline in FY18F and flat for FY19F
- Earnings slashed by 23% for FY18F and 33% for FY19F
- Downgrade to Fully Valued; TP cut to S\$0.66

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2016A	2017A	2018F	2019F
Revenue	288	401	389	390
EBITDA	20.8	31.2	27.8	26.0
Pre-tax Profit	18.1	29.4	26.5	24.7
Net Profit	15.9	25.9	23.3	21.8
Net Pft (Pre Ex.)	15.9	25.9	23.3	21.8
Net Pft Gth (Pre-ex) (%)	87.2	63.1	(9.9)	(6.8)
EPS (S cts)	4.47	7.29	6.57	6.12
EPS Pre Ex. (S cts)	4.47	7.29	6.57	6.12
EPS Gth Pre Ex (%)	87	63	(10)	(7)
Diluted EPS (S cts)	4.47	7.29	6.57	6.12
Net DPS (S cts)	0.0	2.00	3.94	3.67
BV Per Share (S cts)	22.2	37.5	40.1	42.5
PE (X)	17.4	10.7	11.9	12.7
PE Pre Ex. (X)	17.4	10.7	11.9	12.7
P/Cash Flow (X)	12.2	8.0	14.4	12.4
EV/EBITDA (X)	13.3	6.9	7.6	7.8
Net Div Yield (%)	0.0	2.6	5.1	4.7
P/Book Value (X)	3.5	2.1	1.9	1.8
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	22.4	24.4	16.9	14.8
Earnings Rev (%):			(23)	(33)
Consensus EPS (S cts):			8.30	9.10
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Hit by property cooling measures

Downgrade to Fully Valued as new property curbs will affect transaction activities. The government has reinstated property curbs through raising Additional Buyer's Stamp Duty (ABSD) rates by 5ppts and tightened Loan-to-Value (LTV) limits by 5ppts. These measures will raise the cost of ownership. We expect demand from potential buyers to cool in the immediate term. Developers would also have to re-look at their pricing and launch strategy. We cut FY18F and FY19F private transaction value growth to -5% and flat for FY19F. As such, earnings are slashed by 23% for FY18F and 33% for FY19F.

Where we differ: Sales momentum hurt; en-bloc activity to wane. The uncertainty and expected slowdown in sales velocity in 2H18 and potentially 2019 might lead to developers re-thinking their land-banking strategy or even put a halt to this altogether. The en-bloc market could potentially grind to a halt.

Stronger-than-projected volumes could surprise on the upside. We have cut our FY18F and FY19F private transaction value assumptions, and now expect values to drop 5% in FY18F and stay flat for FY19F, from +15% and +10% respectively in the private residential segment. For HDB, we assumed flat growth, down from +10% and +5%.

Valuation:

Downgrade to Fully Valued; TP reduced to S\$0.66. Our TP is now based on PE valuation method, instead of the blended PE and DCF method, to reflect the volatile market in view of the policy changes. Pegged to 10x FY18F earnings, down from 15x previously, our TP is now reduced to S\$0.66 (Prev S\$1.22).

Key Risks to Our View:

Outlook is dependent on Singapore's residential property market and macroeconomic conditions.

At A Glance

Issued Capital (m shrs)	355
Mkt. Cap (S\$m/US\$m)	277 / 203
Major Shareholders (%)	
Choon Hong Tan	72.0
Free Float (%)	28.0
3m Avg. Daily Val (US\$m)	1.0
ICB Industry : Industrials / Support Services	

CRITICAL DATA POINTS TO WATCH

Critical Factors

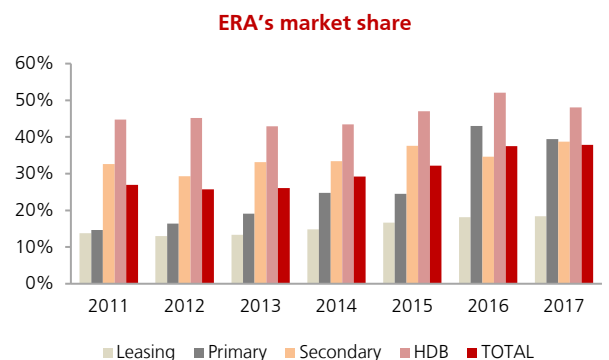
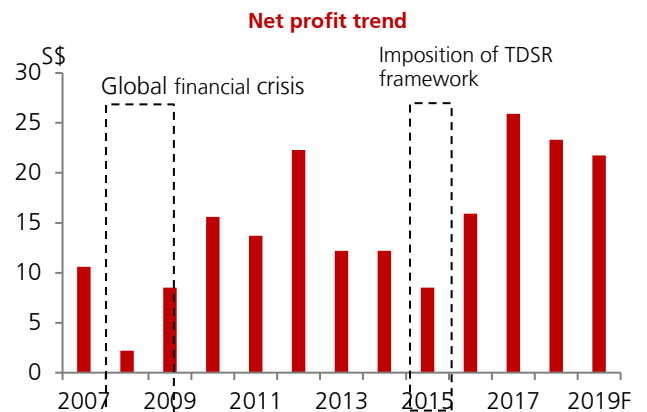
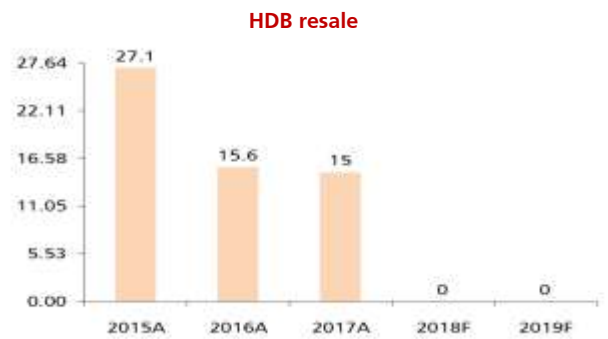
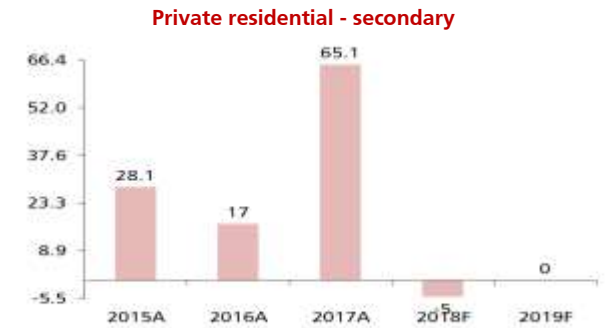
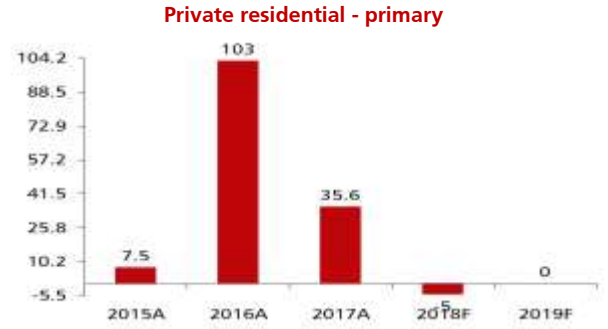
Sales momentum to slow. We are expecting transaction values to hit S\$43.1bn in FY18F (-5% y-o-y) and FY19F (flat y-o-y) for the total private residential market, including both primary and secondary markets. We expect the new property cooling measures to affect market transactions. For the HDB segment, we expect flat growth in FY18-19F, down from +10% and +5%.

Market share is critical. ERA's market share based on transaction value increased from 26.9% in 2011 to about 38% in 1Q18. ERA has established itself as one of the market leaders in project marketing, alongside Huttons whose strength is in mass market projects, and Savills and Knight Frank which are both strong in luxury developments.

Project pipeline. In terms of project launches, ERA secured 12 projects out of 19 (47%) in 2015; 14 out of 23 (66%) in 2016 and eight projects or 91% of projects launched in 2017. To date, ERA has already secured 21 projects to be launched in 2018 with about 11,343 residential units available for sale. This is double the 4,800 units (from eight projects) launched by ERA in 2017.

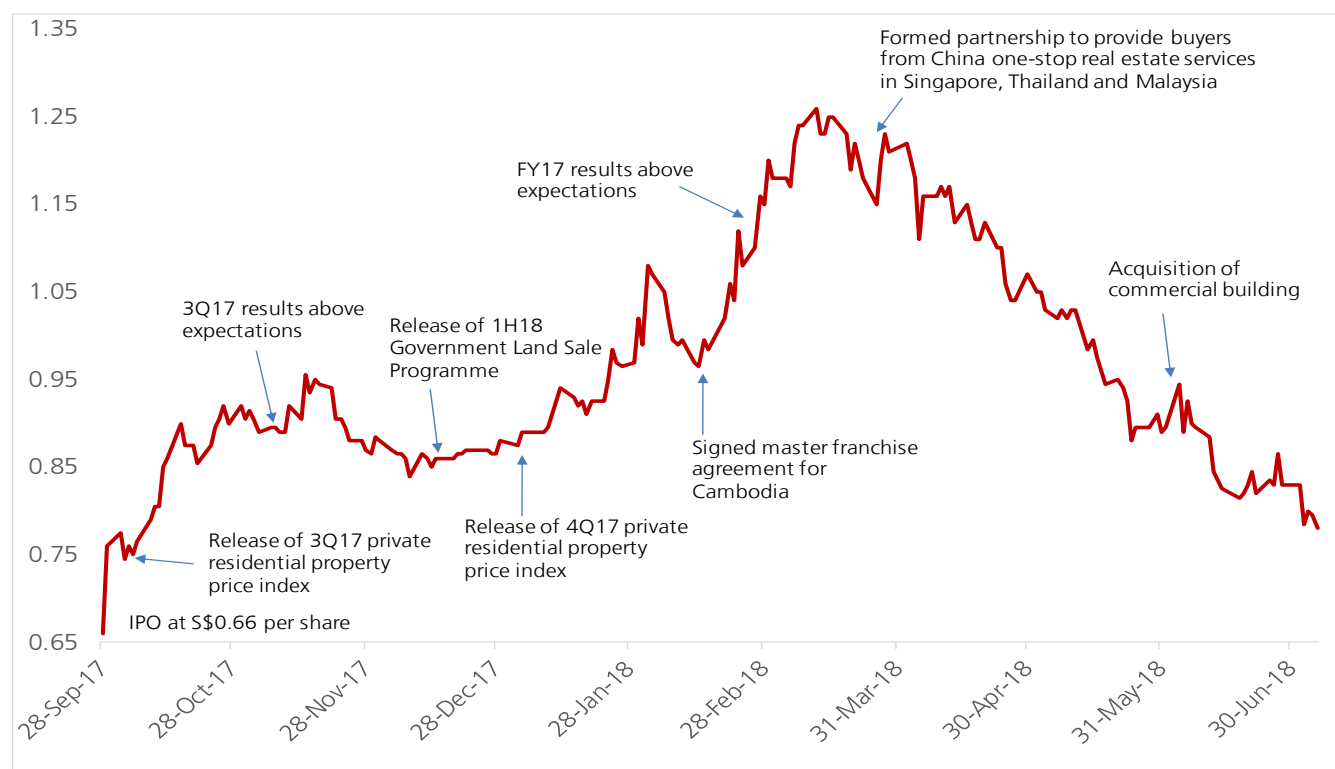
Agents strength. APAC is the second largest agency in terms of number of registered real estate agents. APAC's agents are its primary sales force through which units are transacted, and are not employees of the group. APAC has grown its network of agents over the years, and has managed to gain market share. As at April 2018, APAC has about 6,100 agents with a market share of around 21%, up from 16% in 2014.

Technological initiative to enhance competitiveness. APAC currently offers various tools such as mobile applications to its agents and customers to facilitate the execution of real estate transactions. It intends to continue to develop its technological capabilities to enhance its competitiveness. It has launched a new Property Investment Calculator in its i-ERA mobile app, which will provide salespersons with a one-stop financial analysis tool for any property. They will be able to assist their clients to make more effective buying and selling decisions as all variables are dynamically updated.



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?



Source: Company, DBS Bank

New launches till 3Q18 for which ERA secured marketing agent roles

Location / Project	Developer	Target Launch (Estimated)	Estimated Number of Units
1 New Futura (Former Futura)	CDL	launched - 1Q18	124
2 The Tapestry (Tampines Avenue 10)	CDL	launched - 1Q18	861
3 Rivercove Residences (Anchorvale Lane EC)	Sunway / Hoi Hup	launched - 2Q18	628
4 Twin VEW (West Coast Vale)	CSC Land Group	launched - 2Q18	520
5 The Verandah Residences (Pasir Panjang)	Oxley	launched - 2Q18	170
6 Park Place Residences at PLQ (Phase 2)	Lendlease	launched - 2Q18	219
7 Affinity @ Serangoon (Former Serangoon Ville)	Oxley Serangoon & KSH	launched - 2Q18	1,052
8 TwentyOne Angullia Park	Private Owner	2Q 2018	28
9 Belgravia (Phase 2)	Fairview Developments	2Q/3Q 2018	118
10 Woodleigh Lane	CEL Unique Development	2Q/3Q 2018	735
11 Shunfu Road (Former Shunfu Ville)	Qing Jian	2Q/3Q 2018	1,300
12 Potong Pasir Avenue 1 (Former Raintree Gardens)	UOL	2Q/3Q 2018	750
13 Hougang Avenue 7 (Former Rio Casa)	Oxley - Lian Beng Ventures	2Q/3Q 2018	1,472
14 Flora Drive	Hong Leong / CDL / TID	2Q/3Q 2018	400
15 Stirling Residences (Stirling Road)	Logan / Nanshan	2Q/3Q 2018	1,110
16 Rifle Range Road (Former Mayfair Gardens)	Oxley	2Q/3Q 2018	387
17 Marina One Residences (Phase 2)	M + S	2Q/3Q 2018	500
18 Bukit Timah Road (Former Royalville)	Allgreen	2Q/3Q 2018	320
19 Ewe Boon Road (Former Crystal Tower)	Allgreen	2Q/3Q 2018	130
20 Fourth Avenue	Allgreen	2Q/3Q 2018	455
21 Balmoral Road (Former 11 Balmoral)	Aurum Land	2Q/3Q 2018	64
TOTAL			11,343

Source: Company, DBS Bank

APAC Realty

Balance Sheet:

Cash-generative business. Barring any major capital expenditure, APAC is a cash-generating business with good cash conversion cycle as APAC only pays out to its agents after receiving payments from its debtors. As at 31 March 2018, APAC had fully pared down its debt, with cash balance of S\$63.5m.

Intangibles, include goodwill and franchise rights, account for the bulk of total assets. Goodwill amounted to S\$100m as at March 2018, derived from ERA Realty Network Pte Ltd, ERA Singapore Pte Ltd, Realty International Associates Pte Ltd and Coldwell Banker Real Estate (S) Pte Ltd. Franchise rights are held for the exclusive right of use of the brand names "ERA" and "Coldwell Banker". The group acquired the exclusive ERA Regional master franchise rights for certain countries in the Asia-Pacific region for an initial term of 30 years from 19 November 1999 and expiring in 2029, with the option to renew for another 30 years. The group also holds the ERA sub-franchise rights in Singapore for an initial term of 30 years from 28 June 1990, which expires in 2020, also with the option to renew for another 30 years.

Share Price Drivers:

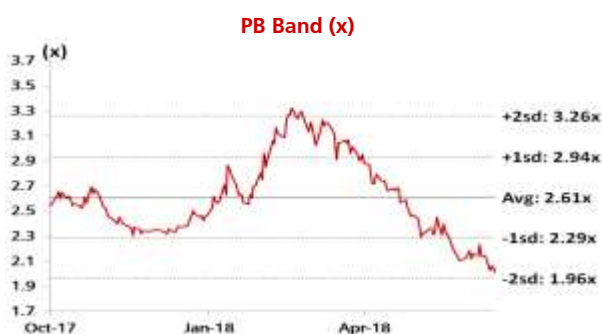
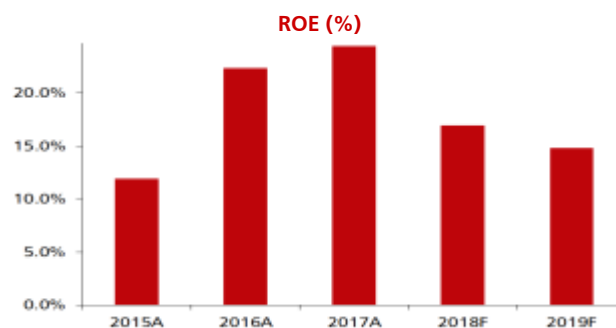
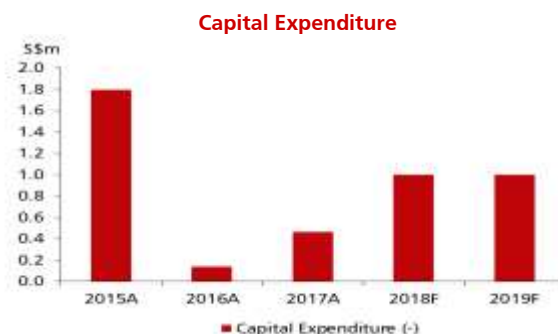
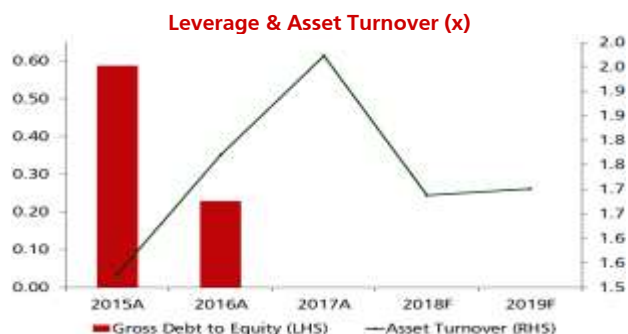
We believe that APAC is largely viewed by the market as a proxy to Singapore's private and HDB residential transaction volumes and values. As such, any newsflow in relation to the Singapore residential market would have an impact on APAC's share price.

Key Risks:

APAC is highly dependent on Singapore's residential property market and macroeconomic conditions. Any change in government policies might affect the property market, which will in turn affect APAC. For example, residential transaction volumes and values suffered a sharp decline in 2014 due to the cumulative effect of various measures introduced by the government. In the longer term, the real estate brokerage industry may also be disrupted by technology with increasing adoption of websites that facilitate private sales.

Company Background

APAC Realty Limited ("APAC") is one of the leading players in the real estate brokerage industry in Asia. APAC Realty operates three main business segments – the real estate brokerage services; franchise agreements; and training, valuation and other ancillary services.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
Transaction value growth					
Private residential - primary	7.50	103	35.6	(5.0)	0.0
Private residential - secondary	28.1	17.0	65.1	(5.0)	0.0
HDB resale	27.1	15.6	15.0	0.0	0.0

Cut transaction value growth assumption on the back of the new property cooling measures

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (\$m)					
Brokerage	224	279	391	378	378
Non-brokerage	8.28	8.62	9.38	11.0	12.1
Total	233	288	401	389	390
Gross profit (\$m)					
Brokerage	23.9	32.2	46.6	45.4	45.4
Non-brokerage	7.33	7.66	8.29	9.90	10.9
Total	31.3	39.9	54.9	55.3	56.3
Gross profit Margins (%)					
Brokerage	10.7	11.5	11.9	12.0	12.0
Non-brokerage	88.5	88.9	88.4	90.0	90.0
Total	13.4	13.9	13.7	14.2	14.4

Income Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	233	288	401	389	390
Cost of Goods Sold	(201)	(248)	(346)	(334)	(334)
Gross Profit	31.3	39.9	54.9	55.3	56.3
Other Opng (Exp)/Inc	(19.8)	(20.7)	(25.2)	(28.4)	(31.2)
Operating Profit	11.5	19.2	29.7	26.9	25.1
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.01	0.0	0.0
Net Interest (Exp)/Inc	(1.2)	(1.1)	(0.3)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.3	18.1	29.4	26.5	24.7
Tax	(1.8)	(2.2)	(3.5)	(3.2)	(3.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	8.49	15.9	25.9	23.3	21.8
Net Profit before Except.	8.49	15.9	25.9	23.3	21.8
EBITDA	13.0	20.8	31.2	27.8	26.0
Growth					
Revenue Gth (%)	6.6	23.7	39.2	(2.9)	0.3
EBITDA Gth (%)	(23.7)	59.6	49.7	(10.8)	(6.5)
Opg Profit Gth (%)	(27.4)	67.3	54.7	(9.6)	(6.7)
Net Profit Gth (Pre-ex) (%)	(30.7)	87.2	63.1	(9.9)	(6.8)
Margins & Ratio					
Gross Margins (%)	13.4	13.9	13.7	14.2	14.4
Opg Profit Margin (%)	4.9	6.7	7.4	6.9	6.4
Net Profit Margin (%)	3.6	5.5	6.5	6.0	5.6
ROAE (%)	11.9	22.4	24.4	16.9	14.8
ROA (%)	5.6	9.8	12.8	10.1	9.5
ROCE (%)	6.9	14.3	21.5	16.2	14.1
Div Payout Ratio (%)	0.0	0.0	27.4	60.0	60.0
Net Interest Cover (x)	9.8	17.1	111.6	73.4	68.5

Assume 60% payout. APAC paid 2-Scts DPS in 4QFY17 which translates into 90% payout post IPO and based on 4Q17 earnings

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	67.2	91.1	106	130	105
Cost of Goods Sold	(57.0)	(83.2)	(91.9)	(114)	(92.3)
Gross Profit	10.2	7.94	13.7	16.0	12.9
Other Oper. (Exp)/Inc	(5.3)	1.83	(7.1)	(7.6)	(5.8)
Operating Profit	4.89	9.78	6.59	8.43	7.13
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	(0.1)	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4.75	9.69	6.55	8.43	7.13
Tax	(0.7)	(1.2)	(1.0)	(0.5)	(1.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	4.03	8.49	5.51	7.88	5.92
Net profit bef Except.	4.03	8.49	5.51	7.88	5.92
EBITDA	5.25	10.1	6.95	8.79	7.49

Fewer new launches in 1Q18

Growth

Revenue Gth (%)	(15.9)	35.7	15.8	22.9	(18.9)
EBITDA Gth (%)	(10.0)	92.9	(31.5)	26.5	(14.8)
Opg Profit Gth (%)	(10.2)	99.8	(32.6)	27.9	(15.4)
Net Profit Gth (Pre-ex) (%)	(18.3)	110.5	(35.1)	43.0	(24.9)

Lower gross margins as more agents move up the commission scale

Margins

Gross Margins (%)	15.1	8.7	13.0	12.3	12.2
Opg Profit Margins (%)	7.3	10.7	6.2	6.5	6.8
Net Profit Margins (%)	6.0	9.3	5.2	6.1	5.6

Balance Sheet (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	2.14	1.44	1.22	2.22	3.22
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	103	102	101	99.9	98.9
Cash & ST Invt	14.2	17.7	62.0	66.2	74.4
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	33.6	47.8	70.1	55.1	55.2
Other Current Assets	2.04	1.63	1.92	1.92	1.92
Total Assets	155	170	236	225	234
ST Debt	6.00	6.00	0.0	0.0	0.0
Creditor	39.0	55.6	82.0	63.7	63.8
Other Current Liab	10.5	13.1	16.4	14.6	14.4
LT Debt	31.0	12.0	0.0	0.0	0.0
Other LT Liabilities	5.14	4.67	4.49	4.49	4.49
Shareholder's Equity	63.0	78.9	133	142	151
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	155	170	236	225	234
Non-Cash Wkg. Capital	(13.9)	(19.4)	(26.5)	(21.4)	(21.1)
Net Cash/(Debt)	(22.8)	(0.3)	62.0	66.2	74.4
Debtors Turn (avg days)	46.6	51.6	53.7	58.7	51.6
Creditors Turn (avg days)	67.6	70.1	73.0	79.9	69.9
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	1.5	1.8	2.0	1.7	1.7
Current Ratio (x)	0.9	0.9	1.4	1.6	1.7
Quick Ratio (x)	0.9	0.9	1.3	1.5	1.7
Net Debt/Equity (X)	0.4	0.0	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.4	0.0	CASH	CASH	CASH
Capex to Debt (%)	4.9	0.8	N/A	N/A	N/A
Z-Score (X)	3.8	4.2	4.3	4.3	3.5

Acquisition of commercial building

Assume bulk of debt financing for the acquisition of commercial building

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	10.3	18.1	29.4	26.5	24.7
Dep. & Amort.	1.56	1.62	1.44	0.93	0.93
Tax Paid	(2.6)	(1.6)	(3.2)	(5.0)	(3.2)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(3.8)	3.35	4.16	(3.3)	(0.1)
Other Operating CF	1.58	1.22	2.80	0.0	0.0
Net Operating CF	7.12	22.7	34.6	19.2	22.3
Capital Exp.(net)	(1.8)	(0.1)	(0.5)	(1.0)	(1.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	(0.2)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(0.3)	0.0	0.0	0.0	0.0
Net Investing CF	(2.1)	(0.1)	(0.7)	(1.0)	(1.0)
Div Paid	0.0	0.0	0.0	(14.0)	(13.1)
Chg in Gross Debt	16.0	(19.0)	(18.0)	0.0	0.0
Capital Issues	0.0	0.0	28.2	0.0	0.0
Other Financing CF	(25.0)	0.0	0.0	0.0	0.0
Net Financing CF	(9.0)	(19.0)	10.2	(14.0)	(13.1)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(4.0)	3.53	44.2	4.18	8.28
Opg CFPS (S cts)	3.06	5.44	8.58	6.32	6.33
Free CFPS (S cts)	1.50	6.34	9.62	5.12	6.01

Acquisition of commercial building

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	09 Nov 17	0.92	1.03	BUY
2:	13 Nov 17	0.96	1.12	BUY
3:	19 Feb 18	1.06	1.12	BUY
4:	26 Feb 18	1.16	1.25	BUY
5:	19 Mar 18	1.19	1.42	BUY
6:	10 May 18	1.03	1.32	BUY
7:	06 Jun 18	0.90	1.32	BUY
8:	14 Jun 18	0.82	1.22	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

Derek TAN

Singapore Company Guide

Chip Eng Seng

Version 3 | Bloomberg: CHIP SP | Reuters: CESE.SI

Refer to important disclosures at the end of this report

DBS Group Research. Equity

6 Jul 2018

FULLY VALUED (Downgrade from BUY)

Last Traded Price (5 Jul 2018): S\$0.85 (STI : 3,256.71)
Price Target 12-mth: S\$0.75 (-12% downside) (Prev S\$1.18)

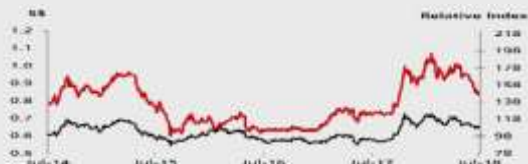
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What's New

- Fresh round of property cooling measures a dampener on CES' newly launched Park Colonial, which drew a strong crowd last weekend
- Lowering assumptions for Singapore projects slightly; heightened uncertainty to weigh on investor sentiment
- Historical trend suggests that CES could trade at 0.56x P/BV, or -1 SD of its historical range, implying potential 16% downside
- Downgrade to FULLY VALUED; TP cut to S\$0.75

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2016A	2017A	2018F	2019F
Revenue	748	860	799	1,202
EBITDA	98.6	102	108	160
Pre-tax Profit	76.1	70.2	67.2	118
Net Profit	35.7	35.5	31.7	62.8
Net Pft (Pre Ex.)	35.7	35.5	31.7	62.8
Net Pft Gth (Pre-ex) (%)	(43.3)	(0.5)	(10.6)	97.7
EPS (S cts)	5.75	5.72	5.11	10.1
EPS Pre Ex. (S cts)	5.75	5.72	5.11	10.1
EPS Gth Pre Ex (%)	(43)	(1)	(11)	98
Diluted EPS (S cts)	5.75	5.72	5.11	10.1
Net DPS (S cts)	4.00	4.00	4.00	4.00
BV Per Share (S cts)	123	125	126	132
PE (X)	14.8	14.9	16.6	8.4
PE Pre Ex. (X)	14.8	14.9	16.6	8.4
P/Cash Flow (X)	nm	nm	9.9	2.9
EV/EBITDA (X)	12.5	18.0	18.2	12.4
Net Div Yield (%)	4.7	4.7	4.7	4.7
P/Book Value (X)	0.7	0.7	0.7	0.6
Net Debt/Equity (X)	0.9	1.6	1.7	1.6
ROAE (%)	4.7	4.6	4.1	7.8
Earnings Rev (%)			0	8
Consensus EPS (S cts)			6.00	9.40
Other Broker Recs:		B: 3	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Ambitions on hold?

Downgrade to FULLY VALUED; TP lowered to S\$0.75. With the hike in ABSD rates and tightening of mortgage LTVs, we believe that the combination of these two property curbs could hit buyer sentiment significantly. Likewise, given heightened uncertainty on sell-through rates for Park Colonial which was launched just a week ago, Chip Eng Seng (CES)'s share price is likely to be weak in the immediate term.

As such, we expect CES to trade at -1 SD (or 0.56x) of its historical P/NAV range going forward, implying potential downside of c.16%. Accordingly, our TP is cut from S\$1.18 to S\$0.75 as we lower sales assumptions and construction margins slightly and impute a higher discount of 65% to RNAV from 45% previously. Downgrade to FULLY VALUED.

Where we differ: A largely uncovered stock, we like CES for its strong earnings visibility and the potential to unlock its undervalued hotel portfolio.

Potential catalysts: Successful pre-sales, landbanking activities.

Potential unlocking of undervalued hotel portfolio. The group has also built up a sizable hotel and commercial portfolio. The jewel is Park Hotel Alexandra, which is recorded in its book at an estimated S\$210m (S\$475k/key) but potential realisable value, if sold, could be as high as S\$376m (S\$850k/key), which means a 275cts upside to current NAV. While the hotel provides stable recurring cash flow to the group, substantial value could be unlocked, given the robust demand for hotel assets in Singapore.

Valuation:

Downgrade to FULLY VALUED with lower SOTP-based TP of S\$0.75. Assuming a higher 65% discount (vs 45% previously) to RNAV of S\$1.88 and valuing its construction business peers' average of 8x FY18F PE, we arrive at a SOTP-based TP of S\$0.75. Meanwhile, a prospective 4.7% yield is also on offer.

Key Risks to Our View:

(i) Execution risk, (ii) Weaker demand, (iii) Competition, (iv) Equity fund raising risk

At A Glance

Issued Capital (m shrs)	621
Mkt. Cap (S\$m/US\$m)	528 / 387
Major Shareholders (%)	
Tiam Seng Lim	12.5
Tiang Chuan Lim	7.1
Lee Meng Chia	4.1
Free Float (%)	76.3
3m Avg. Daily Val (US\$m)	0.71
ICB Industry : Financials / Real Estate	

CRITICAL DATA POINTS TO WATCH

Critical Factors

Substantial proportion of ongoing developments pre-sold ahead of completion. The progressive sale and revenue recognition from six available-for-sale development properties provides earnings visibility over the next few years. Recent launches have been well received. As at 31 Dec 2017, a substantial proportion of units at ongoing developments were pre-sold ahead of their completion – at least 87.5% for Grandeur Park Residences (which was only launched in March 2017) to 100% for High Park Residences (a collaboration between CES, Heeton Holdings, and KSH Holdings).

Growing landbank signals earnings potential beyond 2021.

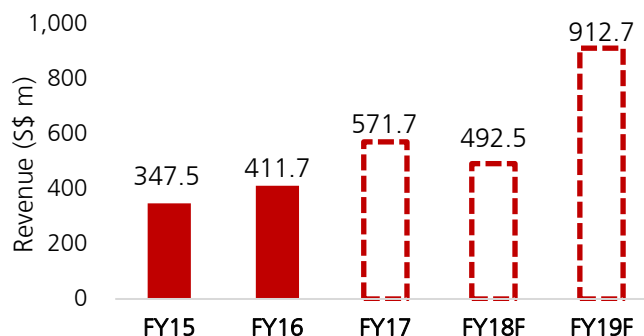
Beyond the existing development projects, we believe that CES' unutilised landbank is indicative of the group's longer-term earnings potential and cash flow generation capability. While the majority of CES' landbank currently lies in Australia, its recently launched Park Colonial project and upcoming Changi Garden site (which is slated for launch in 1H19) in Singapore – which boasts an estimated combined GDV of close to S\$1.5 bn could face heightened uncertainty in the immediate term following the introduction of a new round of cooling measures by the Singapore government.

Net construction order book estimated at S\$560m. CES' construction revenues are mainly derived from Singapore public housing, public transport infrastructure, and private residential projects. While local construction outlook still appears favourable at this juncture, the extent to which CES is able to truly benefit from these positive trends hinges upon the success and viability of its tenders. Following its recent S\$168m contract win in Jan 2018, we estimate CES' construction order book to be closer to S\$560m (vs S\$397.1m at end-4Q17).

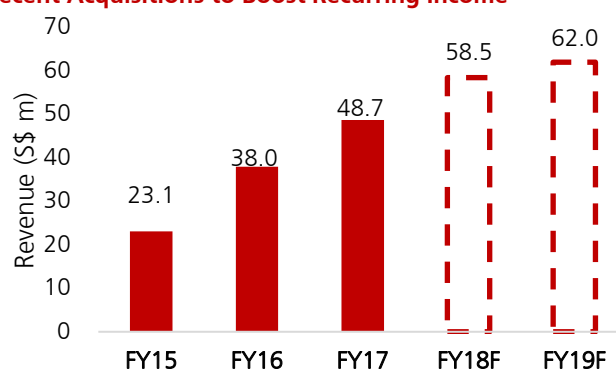
Recurring income pool to see further boost on steady expansion in Hotels and Investments portfolio. Over the years, CES has been increasingly active in the management of its hotel and investment portfolio, resulting in a growing asset base (to c.9 properties at end-FY17) and higher recurring income. With the recent addition of 4.5-star The Sebel Mandurah (purchase includes strata restaurant property) in Nov 2017 and a Grade-A office building at 205 Queen Street, Auckland - through a 50%-joint venture with Roxy-Pacific - we estimate that CES' recurring income base would see a 20% boost y-o-y to c.S\$58.5m in FY18F.

This would represent approximately 6.7% of consolidated revenue, up from 5.1% in FY16. Further acquisitions, including the completion of its proposed acquisition of Mercure & Ibis Styles Grosvenor Hotel in Adelaide, could provide more upside.

FY19F Could Still be a Banner Year for Property Development



Recent Acquisitions to Boost Recurring Income



RNAV of S\$1.88 and SOTP-based TP of S\$0.75

Breakdown of RNAV		OMV (\$m)
Investment Properties		
Investment Properties (Revalued)		320
less book value		-320
Surplus / Deficit		0
Development Properties		
NPV of Development Profits		187
Hotel Operations		
less book value (Hotels + Assoc)		-355
Surplus / Deficit		166
Book NAV		
		770
RNAV		
Total Shares		621
RNAV / Share (S\$)		1.81
Discount		65%
Discounted RNAV / Share (S\$)		0.63
SOTP Valuation		
Discounted RNAV / Share (S\$)		0.63
Value of Construction Business / Share		0.11
SOTP-based TP (S\$):		0.75

Source: Company, DBS Bank

Balance Sheet:

Net gearing could rise from 0.9x in FY16 to c.2.2x following recent en-bloc and land tender wins. While this appears high at first look, successful sale of units for Park Colonial and Changi Garden site should alleviate concerns over its gearing levels.

Share Price Drivers:

Earnings accretive acquisitions.

Potential transactions in Singapore hotel space could spark revaluation of CES's Park Hotel Alexandra. On the back of strong transaction velocity in the office sector, investor attention has been moving to the hotel sector. Given robust demand for hotel assets in Singapore, we believe the potential realisable market valuation for Park Hotel Alexandra would be c. S\$850 a key (when pegged to peers' average) or close to S\$376m vs current book value of c.S\$210m.

Key Risks:

Weaker demand for private residential property across CES' key markets of Singapore and Australia could impact the success of its future launches significantly.

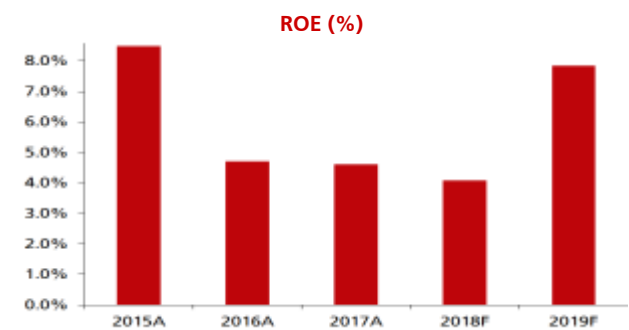
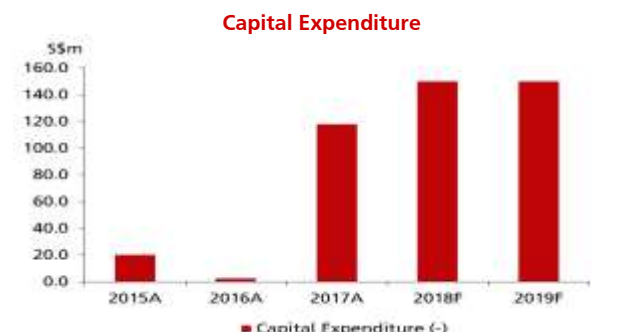
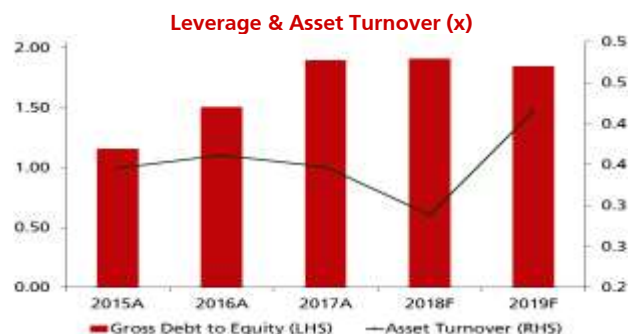
Keen competition across Property Development and Construction segments. Judging by the recent spike in en-bloc tenders at record sale prices and heightened competition for landbank, land prices are expected to rise further. This could impact CES' ability to replenish its landbank (at a reasonable price), which is imperative for future profitability and growth.

Meanwhile for the construction business, we note that EBIT margins have come off over the years and remain watchful of the competitive landscape in the local construction sphere as this could lead to more aggressive bidding among contractors and ultimately, compression of margins.

Possible equity fund-raising to pare down debt. We project that net gearing will rise to 2.2x over the next two years on the back of a rise in landbanking activity, which are primarily covered by loans. We believe that the company could potentially look at equity fund-raising ahead to pare down gearing to a more sustainable level.

Company Background

Founded in the 1960s as a construction company, Singapore-based Chip Eng Seng Corporation (CES) has expanded its scope and scale over the past five decades, and has gradually diversified into property development, investments, and hospitality businesses.



Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (\$\$m)					
Property Development	347	412	572	492	887
Construction	306	298	239	253	258
Hotel Operations	14.1	27.4	38.6	42.9	46.2
Investment Properties	8.97	10.6	10.1	10.4	10.7
Others	0.10	0.06	0.0	0.0	0.0
Total	676	748	860	799	1,202
Operating profit (\$\$m)					
Property Development	51.5	56.8	71.5	64.0	115
Construction	26.9	19.0	14.4	15.2	15.5
Hotel Operations	(1.4)	3.73	4.64	5.84	6.28
Investment Properties	5.72	7.43	7.28	7.49	7.71
Others	1.23	(0.7)	(0.7)	(0.7)	(0.7)
Total	84.0	86.3	97.1	91.9	144
Operating profit Margins					
Property Development	14.8	13.8	12.5	13.0	13.0
Construction	8.8	6.4	6.0	6.0	6.0
Hotel Operations	(9.6)	13.6	12.0	13.6	13.6
Investment Properties	63.8	70.3	72.0	72.0	72.0
Others	1,217.8	(1,101.7)	N/A	N/A	N/A
Total	12.4	11.5	11.3	11.5	12.0

Income Statement (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	676	748	860	799	1,202
Cost of Goods Sold	(515)	(602)	(707)	(653)	(965)
Gross Profit	161	146	153	146	237
Other Opng (Exp)/Inc	(81.0)	(54.3)	(62.0)	(54.3)	(92.6)
Operating Profit	80.4	92.2	90.5	91.9	144
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.02	(0.7)	0.58	5.12	5.12
Net Interest (Exp)/Inc	(13.9)	(15.4)	(20.9)	(29.8)	(31.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	67.6	76.1	70.2	67.2	118
Tax	(10.3)	(24.4)	(20.3)	(21.5)	(37.7)
Minority Interest	5.74	(16.0)	(14.4)	(13.9)	(17.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	63.0	35.7	35.5	31.7	62.8
Net Profit before Except.	63.0	35.7	35.5	31.7	62.8
EBITDA	87.5	98.6	102	108	160
Growth					
Revenue Gth (%)	(38.8)	10.6	14.9	(7.1)	50.5
EBITDA Gth (%)	(73.6)	12.6	3.6	5.8	48.3
Opg Profit Gth (%)	(74.1)	14.6	(1.8)	1.5	56.9
Net Profit Gth (Pre-ex) (%)	(77.8)	(43.3)	(0.5)	(10.6)	97.7
Margins & Ratio					
Gross Margins (%)	23.9	19.6	17.7	18.3	19.7
Opg Profit Margin (%)	11.9	12.3	10.5	11.5	12.0
Net Profit Margin (%)	9.3	4.8	4.1	4.0	5.2
ROAE (%)	8.5	4.7	4.6	4.1	7.8
ROA (%)	3.2	1.7	1.4	1.1	2.2
ROCE (%)	2.8	1.1	0.6	0.1	1.2
Div Payout Ratio (%)	39.6	69.6	70.0	78.2	39.6
Net Interest Cover (x)	5.8	6.0	4.3	3.1	4.6

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S\$m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	182	213	209	256	204
Cost of Goods Sold	(153)	(176)	(174)	(204)	(160)
Gross Profit	29.2	36.1	35.1	52.1	44.6
Other Oper. (Exp)/Inc	(11.8)	(23.9)	(4.8)	(21.5)	(23.6)
Operating Profit	17.4	12.2	30.3	30.6	21.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.19	0.02	0.02	0.39	1.18
Net Interest (Exp)/Inc	(4.7)	(5.6)	(5.9)	(4.8)	(4.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	12.9	6.66	24.5	26.2	17.3
Tax	(2.6)	(1.6)	(5.7)	(4.5)	(5.7)
Minority Interest	(4.2)	(4.2)	(4.7)	(7.2)	(5.5)
Net Profit	6.11	0.82	14.0	14.5	6.06
Net profit bef Except.	6.11	0.82	14.0	14.5	6.06
EBITDA	19.4	14.4	32.9	35.5	26.7

Growth

Revenue Gth (%)	(27.3)	16.9	(1.6)	22.4	(20.2)
EBITDA Gth (%)	(47.9)	(25.8)	129.1	7.9	(25.0)
Opg Profit Gth (%)	(50.8)	(29.8)	148.6	1.0	(31.4)
Net Profit Gth (Pre-ex) (%)	(73.4)	(86.6)	1,615.0	3.5	(58.3)

Margins

Gross Margins (%)	16.1	17.0	16.8	20.4	21.8
Opg Profit Margins (%)	9.6	5.7	14.5	12.0	10.3
Net Profit Margins (%)	3.4	0.4	6.7	5.7	3.0

Balance Sheet (S\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	225	220	324	463	602
Invts in Associates & JVs	12.1	6.36	6.94	12.1	17.2
Other LT Assets	298	302	341	341	341
Cash & ST Invts	442	482	258	187	241
Inventory	625	1,128	1,689	1,714	1,629
Debtors	249	81.2	89.7	79.4	120
Other Current Assets	54.1	13.7	19.2	19.2	19.2
Total Assets	1,907	2,232	2,728	2,816	2,969
ST Debt	120	234	8.74	8.74	8.74
Creditor	117	86.4	58.5	66.8	98.9
Other Current Liab	79.6	81.6	95.3	104	120
LT Debt	738	937	1,524	1,574	1,624
Other LT Liabilities	109	117	233	233	233
Shareholder's Equity	748	766	774	781	819
Minority Interests	(5.3)	10.7	34.3	48.2	65.4
Total Cap. & Liab.	1,907	2,232	2,728	2,816	2,969
Non-Cash Wkg. Capital	733	1,055	1,644	1,642	1,548
Net Cash/(Debt)	(416)	(689)	(1,275)	(1,396)	(1,392)
Debtors Turn (avg days)	125.6	80.6	36.3	38.6	30.2
Creditors Turn (avg days)	81.5	62.3	38.0	35.6	31.7
Inventory Turn (avg days)	555.5	538.2	738.4	968.1	639.4
Asset Turnover (x)	0.3	0.4	0.3	0.3	0.4
Current Ratio (x)	4.3	4.2	12.7	11.1	8.8
Quick Ratio (x)	2.2	1.4	2.1	1.5	1.6
Net Debt/Equity (X)	0.6	0.9	1.6	1.7	1.6
Net Debt/Equity ex MI (X)	0.6	0.9	1.6	1.8	1.7
Capex to Debt (%)	2.3	(0.2)	7.7	9.5	9.2
Z-Score (X)	1.9	1.8	1.8	1.8	1.7

Source: Company, DBS Bank

Cash Flow Statement (S\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	67.6	76.1	70.2	67.2	118
Dep. & Amort.	6.09	7.09	11.1	11.1	11.1
Tax Paid	(27.2)	(34.2)	(22.2)	(12.8)	(21.5)
Assoc. & JV Inc/(loss)	(1.0)	0.66	(0.6)	(5.1)	(5.1)
Chg in Wkg.Cap.	255	(292)	(524)	(6.8)	77.4
Other Operating CF	(0.4)	(14.3)	(25.9)	0.0	0.0
Net Operating CF	300	(257)	(492)	53.6	179
Capital Exp.(net)	(20.0)	2.28	(118)	(150)	(150)
Other Invt.(net)	(1.1)	(2.5)	72.0	0.0	0.0
Invt in Assoc. & JV	(1.4)	8.20	(28.6)	0.0	0.0
Div from Assoc & JV	4.52	1.07	0.30	0.0	0.0
Other Investing CF	0.0	0.0	(0.1)	0.0	0.0
Net Investing CF	(17.9)	9.03	(74.2)	(150)	(150)
Div Paid	(37.4)	(24.8)	(24.8)	(24.8)	(24.8)
Chg in Gross Debt	(80.8)	312	364	50.0	50.0
Capital Issues	(6.3)	0.05	3.29	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(124)	287	342	25.2	25.2
Currency Adjustments	(0.2)	(0.2)	(0.1)	0.0	0.0
Chg in Cash	157	39.1	(224)	(71.3)	54.6
Opg CFPS (S cts)	7.24	5.68	5.25	9.73	16.4
Free CFPS (S cts)	44.9	(41.0)	(98.1)	(15.5)	4.74

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Oct 17	0.91	1.18	BUY
2:	06 Nov 17	0.95	1.18	BUY
3:	01 Feb 18	1.02	1.18	BUY
4:	14 Feb 18	0.94	1.18	BUY
5:	19 Feb 18	0.99	1.18	BUY
6:	19 Mar 18	0.94	1.18	BUY
7:	16 May 18	0.95	1.18	BUY

Source: DBS Bank

Analyst: Carmen Tay
Derek TAN
Rachel TAN

Singapore Company Guide

Roxy-Pacific Holdings

Version 2 | Bloomberg: ROXY SP | Reuters: RXYP.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Jul 2018

FULLY VALUED (Downgrade from BUY)

Last Traded Price (5 Jul 2018): S\$0.48 (STI : 3,256.71)
Price Target 12-mth: S\$0.40 (-15% downside) (Prev S\$0.63)

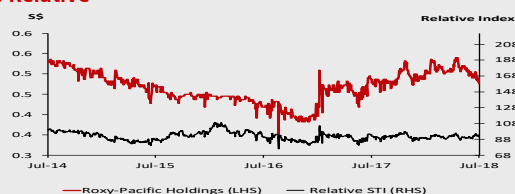
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What's New

- The authorities surprised the market with the hike in ABSD and tightening of mortgages, just over a year after the authorities relaxed policy measures
- Buyers' sentiment will be impacted
- Small and nimble could benefit Roxy
- Downgrade to FULLY VALUED, lowered TP to S\$0.40

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2016A	2017A	2018F	2019F
Revenue	385	247	190	406
EBITDA	67.6	41.6	77.4	120
Pre-tax Profit	65.6	46.7	54.1	94.8
Net Profit	49.8	29.4	41.2	68.7
Net Pft (Pre Ex.)	33.4	6.51	41.2	68.7
Net Pft Gth (Pre-ex) (%)	(57.4)	(80.5)	532.8	66.6
EPS (S cts)	4.17	2.47	3.14	5.24
EPS Pre Ex. (S cts)	2.80	0.55	3.14	5.24
EPS Gth Pre Ex (%)	(57)	(80)	475	67
Diluted EPS (S cts)	4.17	2.47	3.14	5.24
Net DPS (S cts)	1.67	0.98	0.79	1.31
BV Per Share (S cts)	41.2	42.2	40.6	45.0
PE (X)	11.4	19.2	15.1	9.1
PE Pre Ex. (X)	17.0	87.0	15.1	9.1
P/Cash Flow (X)	75.2	nm	nm	32.1
EV/EBITDA (X)	16.0	27.0	19.7	13.2
Net Div Yield (%)	3.5	2.1	1.7	2.8
P/Book Value (X)	1.2	1.1	1.2	1.1
Net Debt/Equity (X)	1.0	1.1	1.7	1.6
ROAE (%)	10.5	5.9	8.0	12.2
Earnings Rev (%)			0	0
Consensus EPS (S cts)			3.20	5.30
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Back to the drawing board

Downgrade to FULLY VALUED; lowered TP to S\$0.40. We downgrade Roxy-Pacific (Roxy) to Fully Valued from BUY and lowered our TP to S\$0.40 (previously S\$0.69) on a higher 55% discount to RNAV from 30% previously. The surprised move by the authorities in hiking ABSD rates and tightening mortgages (just over a year after the authorities relaxed the policy measures) will hit buyer sentiment significantly.

Where we differ. Buyers' sentiment impacted but small and nimble Roxy could still benefit. Despite the strong sales take-up rates of its property launches thus far, we believe the change in buyer sentiment could still have an impact Roxy's new property launches. Although its landbank is typically smaller in size, Roxy still has quite a few projects which were previously scheduled to be launched in 2018 / 2019. However, we believe being nimble in times like this is a plus.

Potential catalysts: Property sales remaining strong despite expected change in sentiment from recent cooling measures.
Beefing up its recurring-income portfolio. In FY17, Roxy had acquired four new commercial buildings in Australia / New Zealand and one hotel property in Japan. Its investment property portfolio has grown close to three-fold to S\$330m. These properties will start contributing in FY18, thus raising contributions from investment properties to 35% in FY18F from 20% in FY16.

Valuation:

Downgrade rating to FULLY VALUED from BUY previously. Our TP of S\$0.40 is based on a higher discount to RNAV of 55% from 30% previously.

Key Risks to Our View:

i) Slower take-up rates, ii) Government regulates more to manage the Singapore property market, iii) AUD / NZD / JPY forex fluctuations, and iv) acquisitions of less-desirable investment properties.

At A Glance

Issued Capital (m shrs)	1,308
Mkt. Cap (S\$m/US\$m)	621 / 455
Major Shareholders (%)	
Kian Lim Investment Pte Ltd	38%
Teo Hong Lim	12%
Sen Lee Development Pte Ltd	11%
Free Float (%)	22%
3m Avg. Daily Val (US\$m)	0.10

ICB Industry : Financials / Real Estate

CRITICAL DATA POINTS TO WATCH

Critical Factors

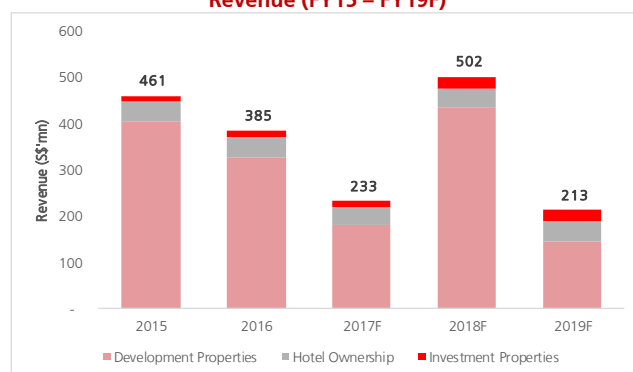
Launching nine freehold residential projects in Singapore in 2018 / 2019. As developers rushed to landbank, Roxy can reap the benefits of being one of the earliest to landbank among the mid- to small-cap developers. It had successfully launched 3 to 4 residential properties which have garnered strong take-up rates prior to the authorities implemented tightening property measures. While future property launches could be impacted by a change in buyers' sentiment, we believe Roxy, having smaller plots of land could be a plus as they stay nimble in uncertain times such as this.

Beefing up its recurring-income portfolio. Since the slowdown of the Singapore property market in 2013, Roxy started to venture out of Singapore and expanded its horizons to build its portfolio of assets to improve recurring income and provide earnings stability. In FY17, Roxy acquired four commercial buildings - two in Australia, and two in New Zealand - adding to its portfolio of one commercial building (excluding the divestment of 59 Goulburn, a commercial building).

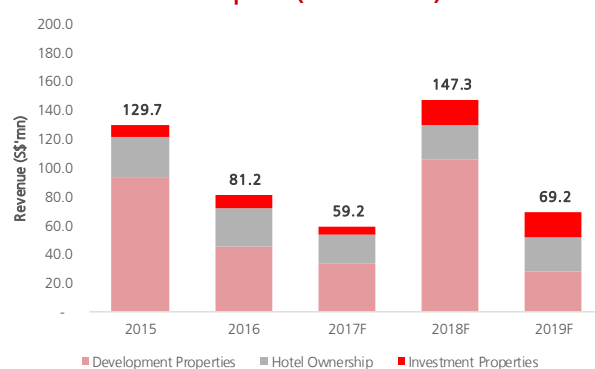
In addition, the group continues to build its hospitality segment, which will add to its recurring income. In FY17, the group acquired Tenmabashi Grand Hotel Osaka for JPY3bn. These properties will start to contribute from FY18 onwards.

Realisation of development projects in Australia upon completion. Roxy's investments in development projects in Australia in 2015 will soon pay off when five projects are completed by 2018. The projects have all been substantially sold (95% sold) except for the last project launched in 3Q17, Art House at West End Glebe. The units sold have a total sales value of approximately S\$300m and could potentially contribute 21% to 44% of FY18F-FY19F earnings.

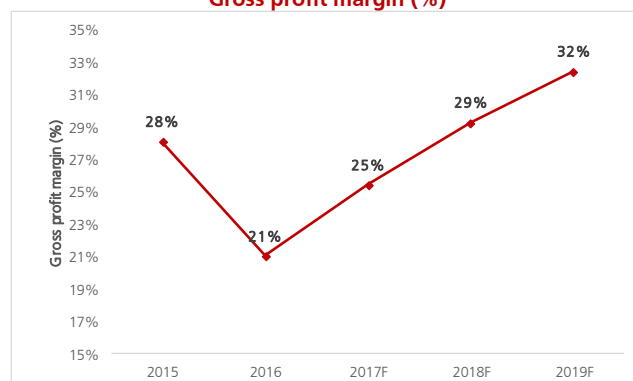
Revenue (FY15 – FY19F)



Gross profit (FY15 – FY19F)



Gross profit margin (%)



RNAV (\$'mn)

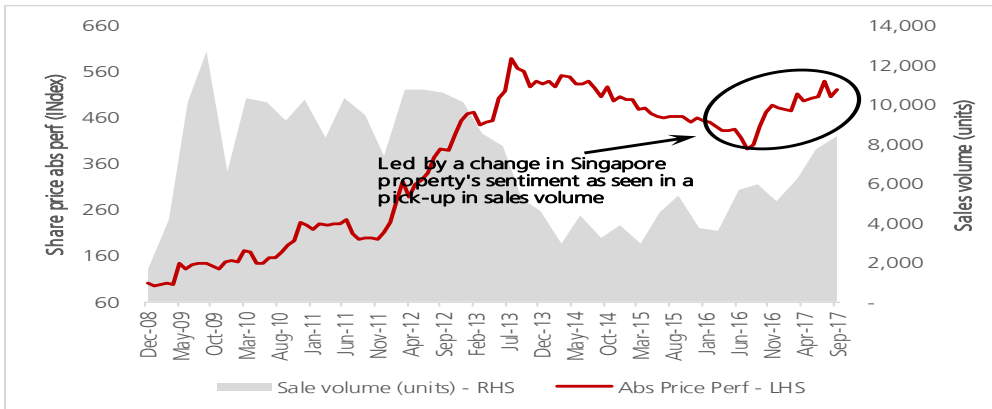
OMV (\$'mn)

Surplus / deficit of assets:	
Development properties	105.9
Landbank	18.5
Hotel properties	447.2
Investment properties	97.6
	<hr/>
	669.2
NAV	<hr/>
	502.7
RNAV	1,171.9
No of shares	1,311.6
RNAV per share (\$)	0.89
Discount	55%
Price Target (\$)	0.40

Source: Company, DBS Bank

Appendix 1:

Roxy's absolute performance vs Singapore property industry sales volume

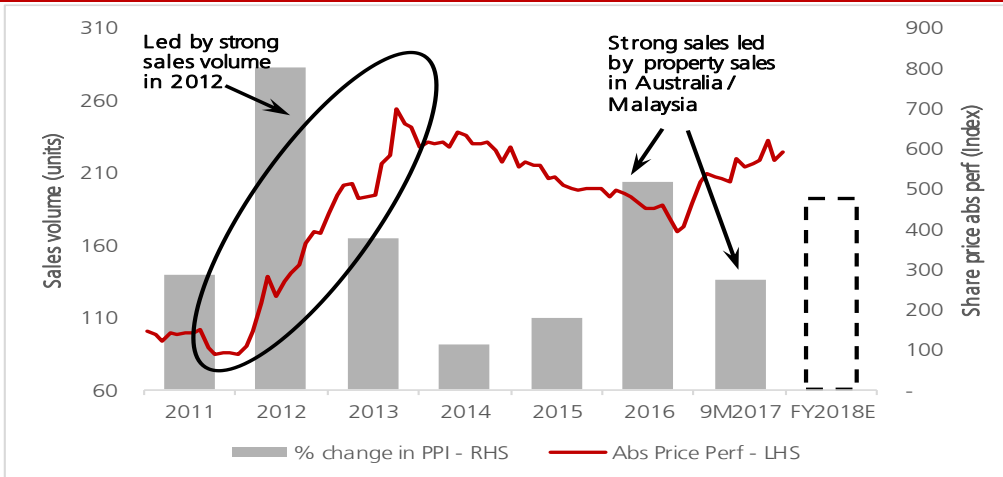


Source: DBS Bank, Thomson Analytics, Company

Remarks

Share price performance is positively correlated to sales volume in the Singapore property industry, especially at the initial stages of an upcycle seen in 2017, when sentiment in the property sector turned positive, supported by an increase in sales volume.

Roxy's absolute performance vs its property sales volume

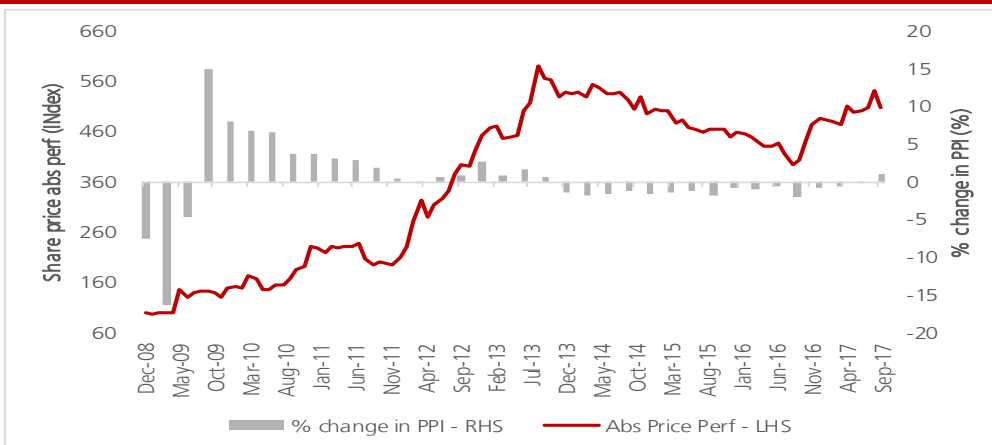


Source: DBS Bank, Thomson Analytics, Company

Remarks

The market did not reward Roxy despite the strong sales performance in 2016. As the strong sales volume was led by sales in Australia and Malaysia, share price performance seemed to be more correlated to its sales volume in Singapore.

Roxy's absolute performance vs PPI changes



Source: DBS Bank, Thomson Analytics, Company, SGX

Remarks

We do not see much correlation between share price performance and property price changes.

Roxy-Pacific Holdings

Balance Sheet:

Undervalued Net Asset Value (NAV). The group’s NAV is conservative largely because the carrying values of its hospitality portfolio is at historical cost. In addition, development properties comprise close to 60% of its total assets, which typically offer more upside upon the realisation of these development properties. Its RNAV is more than double its current NAV.

Net debt to equity stood at 1x in FY17. Roxy’s net debt to equity stood at 1x as at end-FY17. We expect the ratio could increase to 1.7x following landbanking / development activities, and acquisitions of investment properties in FY18. While it may seem high, its NAV could be conservative as mentioned above. The group’s net debt to adjusted NAV (ANAV) stood at 0.6x as at FY17.

Share Price Drivers:

Sustainable sales take-up rates despite cooling measures. Despite the authorities implemented property cooling measures, if sales take-up rates remain sustainable, this would boost confidence and ensure sustainable profitability in its development properties. Depending on the prices, it is also a testament that the market is receptive of higher property prices.

Beefing up its recurring income portfolio. Improvement in office rental rates of its office properties and positive asset recycling will boost investor’s confidence on the capabilities of management in managing and building a sustainable recurring income portfolio for more income stability.

Key Risks:

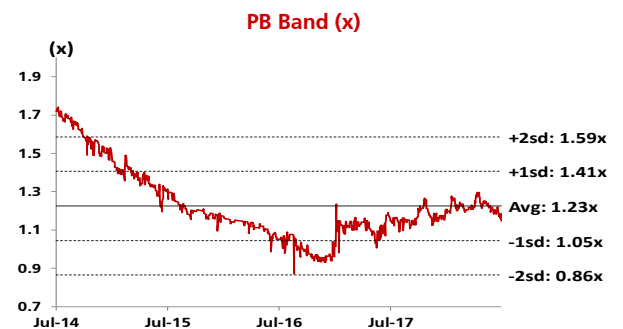
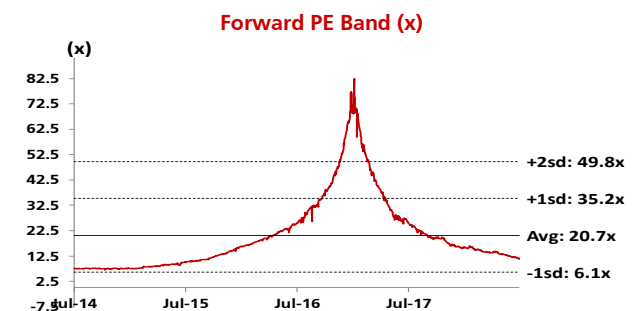
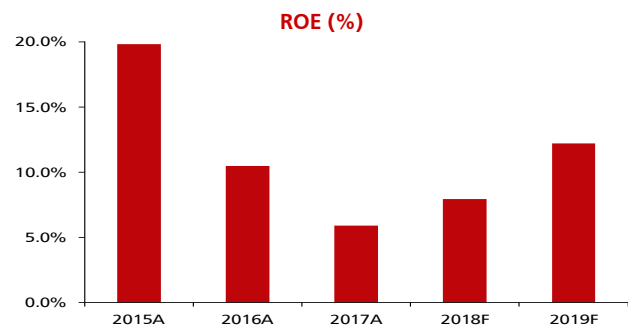
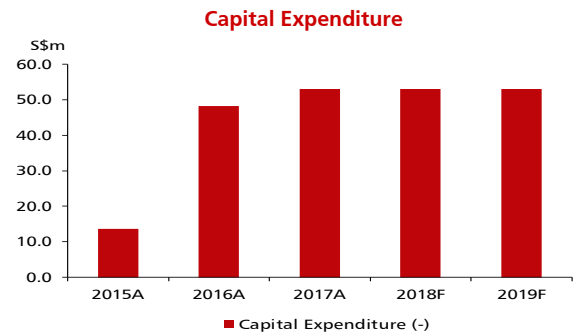
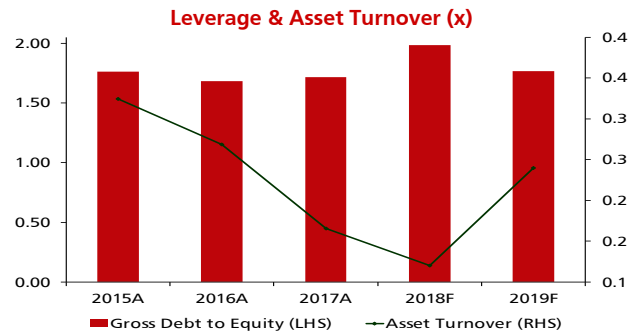
Slower take-up rates. With six developments expected to be launched in FY18, slower take-up rates for its properties would impact the need for more financing, thus, increasing its cost. In addition, Roxy has the five-year timeline to complete its sales before the ABSD and QC charges kick in.

Government regulates more to manage Singapore property.

Despite the multiple ‘warnings’ by the authorities to be cautious of excessive exuberance in the property market, the land bids and the property market have remained robust and bullish. We remain cautious that the authorities may decide to implement more measures to ensure that the Singapore property market remains sustainable in the medium term and that it doesn’t become a “runaway train”.

Company Background

Roxy-Pacific Holdings (Roxy) has a long track record in the property and hospitality space since it was established in May 1967. Listed in March 2008, Roxy is one of the reputable small- to mid-cap developers and has established its brand in small- to medium-sized residential developments targeting middle-to-upper-middle-income segments.



Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (\$m)					
Development Properties	404	327	192	122	338
Hotel Ownership	44.5	46.3	44.3	43.0	43.0
Investment Properties	12.2	12.5	10.8	24.9	24.9
Total	461	385	247	190	406
Gross Profit (\$m)					
Development Properties	93.3	45.3	28.0	20.3	62.8
Hotel Ownership	27.8	26.9	24.0	23.2	23.2
Investment Properties	8.58	9.00	7.59	17.8	17.8
Total	130	81.2	59.5	61.3	104
Gross Profit Margins (%)					
Development Properties	23.1	13.9	14.6	16.6	18.6
Hotel Ownership	62.4	58.1	54.2	54.0	54.0
Investment Properties	70.6	71.9	70.5	71.5	71.5
Total	28.1	21.1	24.1	32.3	25.6

Income Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	461	385	247	190	406
Cost of Goods Sold	(331)	(304)	(187)	(128)	(302)
Gross Profit	130	81.2	59.5	61.3	104
Other Opng (Exp)/Inc	(35.9)	(38.7)	(36.8)	(37.4)	(38.6)
Operating Profit	93.8	42.5	22.8	33.1	74.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	11.1	18.6	13.0	38.5	38.5
Net Interest (Exp)/Inc	(10.6)	(11.9)	(12.0)	(17.5)	(18.1)
Exceptional Gain/(Loss)	6.75	16.4	22.9	0.0	0.0
Pre-tax Profit	101	65.6	46.7	54.1	94.8
Tax	(15.9)	(12.7)	(15.4)	(10.3)	(18.0)
Minority Interest	(0.1)	(3.1)	(1.9)	(2.6)	(8.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	85.1	49.8	29.4	41.2	68.7
Net Profit before Except.	78.3	33.4	6.51	41.2	68.7
EBITDA	110	67.6	41.6	77.4	120
Growth					
Revenue Gth (%)	45.0	(16.4)	(36.0)	(23.1)	113.8
EBITDA Gth (%)	(3.6)	(38.5)	(38.5)	86.1	55.0
Opg Profit Gth (%)	69.7	(54.7)	(46.3)	45.2	124.7
Net Profit Gth (Pre-ex) (%)	(12.9)	(57.4)	(80.5)	532.8	66.6
Margins & Ratio					
Gross Margins (%)	28.1	21.1	24.1	32.3	25.6
Opg Profit Margin (%)	20.4	11.0	9.2	17.4	18.3
Net Profit Margin (%)	18.5	12.9	11.9	21.7	16.9
ROAE (%)	19.8	10.5	5.9	8.0	12.2
ROA (%)	6.0	3.5	2.0	2.6	4.1
ROCE (%)	6.0	2.6	1.1	1.8	3.6
Div Payout Ratio (%)	26.8	39.9	39.9	25.0	25.0
Net Interest Cover (x)	8.8	3.6	1.9	1.9	4.1

Source: Company, DBS Bank

Roxy-Pacific Holdings

Quarterly / Interim Income Statement (S\$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	93.1	65.4	77.8	60.3	43.3
Cost of Goods Sold	(73.0)	(49.1)	(64.1)	(42.7)	(31.4)
Gross Profit	20.2	16.3	13.8	17.5	11.9
Other Oper. (Exp)/Inc	(11.4)	(7.6)	(7.7)	(11.4)	(5.7)
Operating Profit	8.73	8.75	6.07	6.10	6.24
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	8.13	2.62	4.67	0.51	5.22
Net Interest (Exp)/Inc	(3.7)	(3.8)	(4.0)	(3.2)	(2.7)
Exceptional Gain/(Loss)	0.17	1.55	18.7	0.0	0.0
Pre-tax Profit	13.3	9.17	25.4	3.39	8.75
Tax	(1.4)	(2.9)	(10.1)	(1.1)	(1.4)
Minority Interest	(0.7)	(0.4)	(0.6)	(0.8)	(0.1)
Net Profit	11.3	5.91	14.7	1.50	7.27
Net profit bef Except.	11.1	4.36	(4.0)	1.51	7.27
EBITDA	19.1	13.1	12.5	7.12	13.1

Growth

Revenue Gth (%)	2.4	(29.7)	18.9	(22.6)	(28.1)
EBITDA Gth (%)	20.7	(31.4)	(4.5)	(43.2)	84.6
Opg Profit Gth (%)	(15.8)	0.2	(30.6)	0.6	2.2
Net Profit Gth (Pre-ex) (%)	49.2	(60.7)	(190.8)	(138.0)	383.3

Margins

Gross Margins (%)	21.6	24.9	17.7	29.1	27.5
Opg Profit Margins (%)	9.4	13.4	7.8	10.1	14.4
Net Profit Margins (%)	12.1	9.0	18.9	2.5	16.8

Balance Sheet (S\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	130	176	216	263	309
Invts in Associates & JVs	127	158	198	237	275
Other LT Assets	181	200	127	161	161
Cash & ST Invts	395	325	322	175	131
Inventory	0.13	0.78	1.07	1.07	1.07
Debtors	28.9	93.2	53.3	39.2	83.9
Other Current Assets	547	509	598	772	772
Total Assets	1,409	1,462	1,516	1,648	1,733
ST Debt	485	562	554	554	554
Creditor	11.8	15.6	88.9	9.69	20.7
Other Current Liab	110	85.3	30.9	10.3	18.0
LT Debt	323	271	318	518	518
Other LT Liabilities	21.3	33.1	16.5	16.5	16.5
Shareholder's Equity	458	491	503	532	591
Minority Interests	0.63	3.75	5.07	7.69	15.8
Total Cap. & Liab.	1,409	1,462	1,516	1,648	1,733
Non-Cash Wkg. Capital	454	502	533	793	819
Net Cash/(Debt)	(413)	(507)	(549)	(897)	(941)
Debtors Turn (avg days)	40.5	57.8	108.3	89.0	55.4
Creditors Turn (avg days)	13.7	16.7	105.0	146.6	18.8
Inventory Turn (avg days)	0.1	0.6	1.9	3.2	1.3
Asset Turnover (x)	0.3	0.3	0.2	0.1	0.2
Current Ratio (x)	1.6	1.4	1.4	1.7	1.7
Quick Ratio (x)	0.7	0.6	0.6	0.4	0.4
Net Debt/Equity (X)	0.9	1.0	1.1	1.7	1.6
Net Debt/Equity ex MI (X)	0.9	1.0	1.1	1.7	1.6
Capex to Debt (%)	1.7	5.8	6.1	4.9	4.9
Z-Score (X)	1.7	1.4	1.2	1.2	1.3

Source: Company, DBS Bank

Cash Flow Statement (S\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	101	65.6	46.7	54.1	94.8
Dep. & Amort.	4.90	6.48	5.75	5.75	7.00
Tax Paid	(8.6)	(24.6)	(2.1)	(30.9)	(10.3)
Assoc. & JV Inc/(loss)	(1.1)	(18.6)	(13.0)	(38.5)	(38.5)
Chg in Wkg.Cap.	62.5	(16.7)	(5.6)	(65.1)	(33.6)
Other Operating CF	(6.2)	(4.6)	(51.5)	0.0	0.0
Net Operating CF	153	7.54	(19.7)	(74.7)	19.4
Capital Exp.(net)	(13.7)	(48.3)	(53.1)	(53.1)	(53.1)
Other Invt.(net)	0.0	0.0	99.2	(33.7)	0.0
Invt in Assoc. & JV	(24.2)	(17.1)	(38.5)	0.0	0.0
Div from Assoc & JV	3.68	13.3	3.34	0.0	0.0
Other Investing CF	1.31	2.36	3.20	(174)	0.0
Net Investing CF	(32.9)	(49.7)	14.2	(261)	(53.1)
Div Paid	(22.8)	(21.5)	(16.4)	(11.7)	(10.3)
Chg in Gross Debt	(97.0)	19.0	41.9	200	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(102)	(32.4)	(22.6)	0.0	0.0
Net Financing CF	(222)	(34.8)	2.85	188	(10.3)
Currency Adjustments	0.24	1.28	(0.2)	0.0	0.0
Chg in Cash	(102)	(75.7)	(2.9)	(147)	(44.0)
Opg CFPS (S cts)	7.55	2.03	(1.2)	(0.7)	4.04
Free CFPS (S cts)	11.6	(3.4)	(6.1)	(9.7)	(2.6)

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	12 Dec 17	0.49	0.63	BUY
2:	14 Dec 17	0.49	0.63	BUY
3:	17 Dec 17	0.50	0.63	BUY
4:	15 Feb 18	0.51	0.63	BUY
5:	19 Feb 18	0.52	0.63	BUY
6:	19 Mar 18	0.50	0.63	BUY
7:	07 May 18	0.52	0.63	BUY
8:	16 May 18	0.52	0.63	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 6 Jul 2018 09:58:16 (SGT)

Dissemination Date: 6 Jul 2018 10:04:43 (SGT)

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